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101st Congress
1st Session

COMMITTEE PRINT

WMCP: 101–4

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

1989 EDITION

MARCH 15, 1989

Prepared for the use of the Committee on Ways and Means by its staff

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U.S. GOVERNMENT PRINTING OFFICE
92-695 WASHINGTON : 1989

H782-10

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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LETTER OF TRANSMITTAL

Committee on Ways and Means,
U.S. House of Representatives,
Washington, DC, March 15, 1989.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

Dear Mr. Chairman: Upon your election as Chairman of the Committee on Ways and Means, you instructed the staff to prepare a document which would be of use to Members of the Committee when reviewing programs within the Committee's jurisdiction. A committee print entitled "Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means" (WMCP: 97-2) was published on March 10, 1981, and quickly became known as the "Green Book." As you know, the Green Book has been revised and updated annually.

On behalf of the staff, I am pleased to transmit to you and the other Members of the Committee on Ways and Means, the 1989 edition of the Green Book. The Green Book integrates a description of each program within the jurisdiction of the Committee with current data concerning the population served by the program, an analysis of interactions with other major programs, and historical information covering the program. It is a unique yearly compilation of information which Members of Congress appear to find extremely useful. In addition, it has come to the staff's attention that increasing numbers of analysts and institutions outside the legislative process have come to rely on the Green Book and look forward to its yearly publication.

The staff wishes to express its appreciation to the many individuals who contribute annually to the publication of the Green Book. The following organizations and individuals deserve to be recognized for their efforts:

(1) The Congressional Research Service of the Library of Congress for assistance in preparing sections 1, 2, 3, 7, 8, 9, and 11 of part 1; section 1 of part 2; section 2 of part 3; and appendices A, B, C, D, E, F, G, H, I, J, and L;

(2) The Congressional Budget Office for assistance in preparing sections 4 and 7 of P1 appendices B, D, G, H, I, K, and L; and sections 1, 2, and 3 of part 3, and for reviewing all drafts of the document;

(3) The Office of Research and Statistics of the Social Security Administration, and the Health Care Financing Administration, for updating the Social Security, Supplemental Security Income, Medicare, and Medicaid sections and other topics re-

lated to Social Security, health programs and policies, and the Office of Legislation for coordinating all transmissions of information to the committee;

(4) The Office of the Actuary of the Social Security Administration for assistance in preparing section 3 of part 1;

(5) The Department of Labor for assistance in updating sections 5 and 6 of part 1 and appendix F;

(6) The staff of the Railroad Retirement Board for updating sections 3 and 4 of part 2;

(7) The Office of Family Assistance and the Office of Child Support Enforcement of the Department of Health and Human Services for assistance in updating tables in the sections relating to the AFDC, child support enforcement, social services block grant, child welfare, and quality control programs;

(8) The Prospective Payment Assessment Commission for their preparation of tables in Appendix D;

(9) The staff of the Joint Committee on Taxation for preparing section 12 of part 1;

(10) The minority staff of the House Budget Committee for tables 15-18 in section 1 of part 3;

(11) Greg Duncan and Debbie Laren of the Institute for Social Research, University of Michigan, for special tabulations of the Panel Study of Income Dynamics which appear in the AFDC program section;

(12) The Census Bureau for updating tables from the Survey of Income and Programs Participation in Appendix L; and

(13) The Pension Benefit Guaranty Corporation for assistance in updating section 13 of Part 1.

Many Committee staff members spend considerable time and effort in preparing this document. Four members of the staff deserve special recognition for their contribution to this volume. For the ninth year in a row, Wendell Primus worked with untiring spirit to oversee production of the Green Book and translate Committee needs for information into a reliable and pertinent source book. Important contributions to the book were also made by Yvette Chocolaad, who improved both the book's organization and content, by Ralph Birch, who ensured that only a quality product went to print, and by Janet Levine, for her research assistance and enthusiasm.

Comments by Members of Congress and other interested persons regarding the format and content of this document are appreciated and will be reflected in future editions.

Sincerely,

ROBERT J. LEONARD,
Chief Counsel.

PREFACE

The staff of the Committee on Ways and Means, with assistance from many individuals at the Congressional Research Service, the Congressional Budget Office, the Social Security Administration, the Health Care Financing Administration, the Department of Health and Human Services, the Prospective Payment Assessment Commission, the Department of Labor, the Census Bureau of the Department of Commerce, the Railroad Retirement Board, and the Joint Committee on Taxation, has prepared this document for the members of the committee to use in analyzing possible revisions to the programs under the committee's jurisdiction.

This document is divided into three distinct parts:

Part 1 describes programs within the jurisdiction of the committee. This part presents summary tables indicating the relative size and recent growth of the individual programs, and extensive information on program eligibility, payment, financing, participant characteristics, interactions with other programs, and history.

Also included in part 1 are 12 appendices which provide background data on topics indirectly related to these programs. The appendices include: a statistical history of the Social Security programs; health status, utilization, and expenditures of the elderly; national health expenditures and health insurance coverage; Medicare reimbursement to hospitals and physicians; data on unemployment, employment, and the labor force; demographic and economic characteristics of families with children and the elderly; poverty, income, tax burden distributions, and wealth statistics; income and population data by State; a description of quality control systems; and descriptions of major social programs not within the committee's jurisdiction.

Part 2 describes four trust funds over which the committee has revenue jurisdiction which provide benefits to individuals. This part presents a brief legislative history of the trust funds, the current financing mechanism of the funds, and the financial status of the funds.

Part 3 presents budget tables, a description of the fiscal year 1990 administration budget outlay proposals, and a description of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. This part also includes two appendices which present excerpts from the Congressional Budget Act and the Committee on Ways and Means' reports to the Budget Committee.

The material in this document has been assembled quickly in order that it be available to members of the committee for their use in connection with presently pending budget and program issues. Constructive comments regarding the format and content of this document are appreciated.

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PART 1

DESCRIPTION OF PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS PROVIDING BENEFITS OR SERVICES TO INDIVIDUALS

Section 1. The Old-Age and Survivors Insurance Program (OASI)

The old-age and survivors insurance (OASI) program provides monthly benefits to retired workers and their dependents and to survivors of insured workers. Old-age retirement benefits were provided for retired workers by the original Social Security Act of 1935, and benefits for dependents and survivors were provided by the 1939 amendments. The disability insurance (DI) program, enacted in 1956, and the hospital insurance (HI) program, enacted in 1965, are closely related to the old-age and survivors insurance program. (These related programs are discussed in later sections.)

GENERAL

A worker builds protection under these programs through employment that is covered by the Social Security system. Coverage is generally compulsory. However, employees of State and local governments are covered on a voluntary group basis.[1] Currently, 93 percent of the Nation's civilian work force is covered either voluntarily or mandatorily.

Contributions are made under the Federal Insurance Contributions Act (FICA, chapter 21 of the Internal Revenue Code). Contributions are based on wages and earnings up to the annual maximum taxable wage base ($48,000 in 1989). The employee contribution is withheld from wage and salary payments to employees and is matched by employers. Self-employed persons (SECA, chapter 2 of the Internal Revenue Code) pay contributions on their net earnings annually up to the same maximum as employees, but at a rate that is equal to the combined employee-employer tax rate. Until 1990, a general revenue credit is available to offset part of the SECA contribution.

Revenue from the OASI portion of the tax is credited automatically to the Old-Age and Survivors Insurance Trust Fund. In addition, the revenue derived from the taxation of a portion of Social Security retirement and survivors' benefits is credited to the OASI trust fund. The trust fund is the source of payment for: (1) monthly benefits when the worker retires or dies (including a financial interchange with the railroad retirement system), and (2) administrative expenses for the program.

BENEFITS

Summary

Monthly cash benefits under OASI are paid as a matter of earned right to workers who are insured for benefits and to their eligible dependents and survivors. Generally, benefit amounts paid both to the insured worker and to the insured worker's dependents or survivors are related to the past earnings of the insured worker. An individual may be entitled to benefits as a worker based on his own earnings history and also to benefits as a dependent of another worker. However, the amount of the benefit is adjusted so that, in effect, only the larger of the two benefits is paid.

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[1] State and local coverage is voluntary for the OASI and DI programs. However, it became mandatory for HI purposes for persons hired by State or local governments on or after April 1, 1986.

In December 1988, there were 38.6 million beneficiaries in the OASI and DI programs who were in current-payment status. Monthly benefits paid out were $18.7 billion.

The following table summarizes various types of beneficiaries and average benefit amounts:

TABLE 1.—OASDI CASH BENEFITS IN CURRENT-PAYMENT STATUS, DECEMBER 1988

	Number (thousands)	Percent of beneficiary population	Average monthly benefit
Total monthly beneficiaries	38,627	100.0	$484
Retired workers	23,858	61.8	537
Wives and husbands of retired workers	3,086	8.0	277
Children of retired workers	432	1.1	228
Disabled workers	2,830	7.3	530
Wives and husbands of disabled workers	281	.8	138
Children of disabled workers	963	2.5	151
Widowed mothers and fathers	318	.8	368
Surviving children	1,809	4.7	368
Widows and widowers	4,926	12.8	493
Disabled widow(er)s	103	.3	348
Parents	7	.02	428
Special age-72	14	.04	151

Source: Office of Research and Statistics, Social Security Administration.

Description of major benefit types

Child's benefit. Under the OASI program, a monthly benefit is payable to an unmarried child or eligible grandchild of a retired worker or a deceased worker who was fully or currently insured at death if the child or grandchild is: (1) under age 18; (2) a full-time elementary or secondary student under age 19; (3) a dependent disabled person aged 18 or over whose disability began before age 22. A grandchild, including a great grandchild, is eligible for benefits on a grandparent's earnings record (or that of the spouse of such worker) if he is dependent on the grandparent for at least half his support and his parents are either disabled or deceased or, where a parent is alive, the grandparent is dead and the child has been adopted by the surviving grandparent.

Lump-sum death benefit. A lump-sum payment is payable upon the death of a fully or currently insured worker to the surviving spouse who was living with the deceased worker or was eligible to receive monthly cash survivor benefits upon the worker's death. If there is no eligible spouse, the lump-sum death payment is payable to any child of the deceased worker who is eligible to receive monthly cash benefits as a surviving child. If there is no surviving spouse and no children of the worker eligible for monthly benefits, then no one is eligible to receive the lump-sum death payment. The payment amount is $255.

Minimum benefit. The minimum benefit is the smallest benefit (before actuarial reduction or earnings test reduction) payable to a worker or his survivors/dependents. In 1977, the minimum benefit was frozen at $122 per month for all workers who became disabled after 1978 and all survivors of workers who died after 1978. The new frozen minimum of $122 was to have applied to all retired workers reaching age 62 in 1984 or later. However, legislation in 1981 eliminated the minimum benefit for all persons becoming eligible for benefits in January 1982 or later (except for certain members of religious orders who have taken a vow of poverty; such persons are exempt from the new law for ten years). These persons have their benefits computed under the regular benefit computation rules. Persons eligible for benefits prior to January 1, 1982 are able to continue receiving the minimum benefit, which is subject to annual cost-of-living adjustments.

Mother's or father's benefit. A monthly benefit is payable to a widow (widower) or surviving divorced mother (father) if: (1) the deceased worker on whose account the benefit is paid was fully or currently insured at time of death and (2) the widow (widower) or surviving divorced mother (father) has one or more entitled children of the worker in her care. These payments continue until the youngest child being cared for reaches age 16.

Parent's benefit. This is a monthly benefit payable to a dependent parent, age 62 or over, of a deceased fully insured worker.

Retired-worker (old-age) benefit. This is a monthly benefit payable to a retired worker aged 62 or over who is fully insured.

"Special age-72" benefit. This is a monthly benefit payable to certain persons born before January 2, 1900, who do not have sufficient quarters of coverage to qualify for a retired-worker benefit. The benefit is payable only for months in which the individual is a resident of the 50 States or the District of Columbia and receives no public assistance cash payments or SSI payments. It is reduced by the amount of any government pension (except workers' compensation and veterans' service-connected compensation) that the individual is receiving or is eligible to receive. When husband and wife are both eligible for these benefits, a full benefit is paid to each spouse.

Special minimum benefit. This is a benefit that is not based on the worker's average monthly wage or average indexed monthly earnings, but instead on his/her length (years) of covered employment. It is designed to help those who worked in covered employment for many years but had low earnings. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 and up to 30 by $11.50 for monthly benefits payable in 1979, with automatic cost-of-living increases applicable to years 1979 and later. The number of years of coverage equals the number, not to exceed 14, obtained by dividing total creditable wages in 1937–50 by $900, plus the number of years after 1950 for which the worker is credited with at least 25 percent of the annual maximum taxable earnings. For this purpose for years after 1978, annual maximum taxable earnings are based on only the automatic adjustment provisions. The special minimum benefit is not subject to the delayed-retirement-credit provisions.

Spouse's benefit. This is a monthly benefit payable to a spouse or divorced spouse of a retired worker under one of the following conditions: (1) currently married spouse is aged 62 or older or is caring for one or more of the worker's entitled children who have not achieved age 16; or (2) divorced spouse is aged 62 or older, is not married, and the marriage to the worker had lasted 10 years before the divorce became final.

Widow's or widower's benefit. This is a monthly benefit payable to a widow(er) or surviving divorced spouse of a worker fully insured at the time of death if he or she is unmarried, or remarriage occurred after the widow(er)'s first eligibility for benefits; and (a) is aged 60 or older or (b) aged 50–59 and has been disabled throughout a waiting period of 5 consecutive calendar months that began no later than 7 years after the month the worker dies or after the end of her entitlement to benefits as a widowed mother.

BENEFIT ELIGIBILITY: INSURED STATUS

Benefits can only be paid to workers, their dependents or survivors if the worker is "insured" for these benefits. Insured status is measured in terms of "quarters of coverage."

TABLE 2.—AMOUNT OF COVERED EARNINGS NEEDED TO EARN ONE QUARTER OF COVERAGE SINCE 1978

1978	$250
1979	260
1980	290
1981	310
1982	340
1983	370
1984	390
1985	410
1986	440
1987	460
1988	470
1989	500
1990	[1] 530
1991	[1] 550
1992	[1] 580

[1] Based on President's fiscal year 1990 budget assumptions.

Source: Office of the Actuary, Social Security Administration.

Prior to 1978, one quarter of coverage was earned for each calendar quarter in which a worker was paid $50 or more in wages for covered employment (except for agricultural labor). Since the beginning of 1978 the crediting of quarters of coverage has been on an annual rather than a quarterly basis. In 1978, a worker earned one quarter of coverage, up to a total of four, for each $250 of annual earnings reported from covered employment or self-employment. The amount of annual earnings needed for a quarter of coverage is subject to annual automatic increases, effective in January of each year, in proportion to increases in average wages in the economy. In 1989, the amount is $500 for workers.

For the purpose of the OASI program, there are two types of insured status: "fully insured" and "currently insured." Workers are fully insured for benefits for themselves and for their families if they have one quarter of coverage (earned at any time after 1936) for every four quarters elapsing after 1950, or the year of reaching age 21, if later, up to the year in which they reach age 62. Fully insured status is required for eligibility for all types of benefits except certain survivor benefits. A person must have at least six quarters of coverage to be fully insured. A person with 40 quarters of coverage is fully insured for life.

Workers are currently insured if they have six quarters of coverage during the thirteen calendar quarters ending with the quarter in which they died. Currently insured status by itself provides that the worker's surviving family members are eligible for child's, mother's, father's and lump-sum death benefits.

Table 3 indicates the type of insured status that is required for the various monthly benefit categories.

TABLE 3.—INSURED STATUS REQUIREMENTS FOR VARIOUS MAJOR BENEFIT CATEGORIES

Type of benefit	Basic eligibility requirements
Retirement	Fully insured.
Dependents:	
Wives, husbands	Worker entitled.
Mothers, fathers, children, grandchildren	Worker entitled.
Survivors:	
Dependent parents—age 62	Worker fully insured.
Widows, widowers	Worker fully insured.
Mothers, fathers, children	Worker fully or currently insured.
Lump-sum death	Worker fully or currently insured.

BENEFIT COMPUTATION

The amount of a monthly benefit award is determined by first computing an insured worker's average monthly wage (AMW) or—in the case of most workers who attain age 62, become disabled, or die after 1978—average indexed monthly earnings (AIME). The AMW is used in computing benefits under the old (pre-1979) benefit formula, and the AIME is used in computing benefits under the new (post-1978) benefit formula enacted in 1977. The AMW or AIME is linked (by a table or by a formula, respectively, in the law) to the monthly retirement benefit payable at that worker's normal retirement age. This amount is called the primary insurance amount (PIA). Benefits for dependents and survivors are calculated as a percentage of the insured worker's PIA. The calculated amounts may be subject to minimum levels, and all benefits are subject to maximum limits. Benefits payable to workers, spouses, widows, and widowers who choose to retire before their normal retirement age are subject to an actuarial reduction. Benefits payable to workers who choose to retire after their normal retirement age are subject to increase through the delayed retirement credit, as are the benefits payable to their spouses, widows, and widowers. The delayed retirement credit is 3 percent per year for workers age 65 before 1990. For workers age 65 after 1990, the delayed retirement credit will increase by one-half of 1 percent every other year until it reaches 8 percent in 2008.

The normal retirement age

The normal retirement age is the earliest age at which unreduced retirement benefits can be received. The normal retirement age is presently age 65, but will be gradually increased to age 67 beginning in 2000.[2] For persons reaching age 62 in 2000, the normal retirement age will be increased by 2 months—to age 65 and 2 months. In each succeeding year, the normal retirement age will be increased by 2 additional months until it reaches age 66 for persons attaining age 62 in 2005. The normal retirement age will then remain at age 66 for persons attaining age 62 through 2016. Beginning with persons attaining age 62 in 2017, the normal retirement age will again increase by 2 months each year, until it reaches age 67 for persons attaining age 62 in 2022 and later. (See table 4 for the exact schedule of increases in the normal retirement age.)

Average indexed monthly earnings (AIME)

The AIME is a dollar amount that represents the average monthly earnings, adjusted for the change in average wages in the economy, that was received by the worker during a number of years of his covered employment. Indexing creates an earnings record that reflects the value of the individual's earnings relative to national average earnings in the indexing year. The indexing year is the second year before the year in which the worker attains age 62, becomes disabled, or dies. Earnings after the indexing year are counted at their nominal value.

There are four steps in the calculation of the AIME: (1) indexing the worker's earnings for each year after 1950 by dividing the worker's posted earnings for the year being indexed by the average wages of all workers in that same year and multiplying this result by the average earnings in the indexing year, (2) determining the number of computation years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year the worker attains age 62, becomes disabled, or dies, minus dropout years, generally 5 (minimum number of computation years is 2); (3) selecting the actual computation years, based on highest earnings, from any years after 1950; and (4) dividing the sum of earnings in the computation years by the total number of months in the computation years.

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[2] Changes in the normal retirement age are a result of the Social Security Amendments of 1983 (P.L. 98-21).

TABLE 4.—INCREASES IN NORMAL RETIREMENT AGE FOR PERSONS REACHING AGE 62 IN EACH YEAR 1989 AND LATER

Year of birth	Year of attainment of age 62	Normal retirement age
1937 and before	1999 and before	65.
1938	2000	65, 2 mo.
1939	2001	65, 4 mo.
1940	2002	65, 6 mo.
1941	2003	65, 8 mo.
1942	2004	65, 10 mo.
1943–54	2005–16	66
1955	2017	66, 2 mo.
1956	2018	66, 4 mo.
1957	2019	66, 6 mo.
1958	2020	66, 8 mo.
1959	2021	66, 10 mo.
1960 and later	2022 and later	67.

The indexed earnings histories are illustrated in table 5 for three different workers retiring in 1989 at age 62. The actual earnings for the three workers are shown in the first three columns. These are multiplied by the indexing factor (column 4) to arrive at indexed earnings (last 3 columns of table 5). The indexing factor for 1951 is average wages when an individual turned 60 ($18,427) divided by average wages for 1951 ($2,799). The lowest 5 years of indexed earnings may be dropped. For example, a lifelong full-time worker earning the minimum wage would be able to drop earnings in 1984, 1985, 1986, 1987, and 1988, and would have total indexed earnings of $318,373 (see table 5). Dividing this by the number of months in the computation period (33 years × 12 months = 396 months) results in an average indexed monthly earnings (AIME) of $803. The corresponding AIME's for the average and maximum earners are $1,537 and $2,490.

TABLE 5.—EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 1989

[Rounded to nearest dollar]

Year	Nominal earnings			Indexing factor	Indexed earnings		
	Minimum [1]	Average [2]	Maximum [3]		Minimum	Average	Maximum
1951	1,560	2,799	3,600	6.5829	10,269	[4] 18,427	23,698
1952	1,560	2,973	3,600	6.1973	9,668	[4] 18,427	22,310
1953	1,560	3,139	3,600	5.8694	9,156	[4] 18,427	21,130
1954	1,560	3,156	3,600	5.8392	9,109	[4] 18,427	[4] 21,021
1955	1,560	3,301	4,200	5.5814	8,707	[4] 18,427	23,442
1956	1,993	3,532	4,200	5.2165	10,396	18,427	21,909
1957	2,080	3,642	4,200	5.0598	10,524	18,427	21,251
1958	2,080	3,674	4,200	5.0157	10,433	18,427	21,066
1959	2,080	3,856	4,800	4.7789	9,940	18,427	22,939
1960	2,080	4,007	4,800	4.5984	9,565	18,427	22,073
1961	2,184	4,087	4,800	4.5088	9,847	18,427	21,642
1962	2,392	4,291	4,800	4.2938	10,271	18,427	[4] 20,610
1963	2,461	4,397	4,800	4.1910	10,314	18,427	[4] 20,117
1964	2,600	4,576	4,800	4.0265	10,469	18,427	[4] 19.327
1965	2,600	4,659	4,800	3.9553	10.284	18,427	[4] 18,985
1966	2,600	4,938	6,600	3.7313	9,701	18,427	24,627
1967	2,886	5,213	6,600	3.5344	10,200	18,427	23,327
1968	3,293	5,572	7,800	3.3071	10,890	18,427	25,796
1969	3,328	5,894	7,800	3.1264	10,405	18,427	24,386
1970	3,328	6,186	7,800	2.9786	9,913	18,427	23,233
1971	3,328	6,497	7,800	2.8361	9,439	18,427	22,122
1972	3,328	7,134	9,000	2.5830	8,596	18,427	23,247
1973	3,328	7,580	10,800	2.4309	8,090	18,427	26,254
1974	3,883	8,031	13,200	2.2945	8,910	18,427	30,287
1975	4,368	8,631	14,100	2.1349	9,325	18,427	30,103
1976	4,784	9,226	15,300	1.9971	9,554	18,427	30,556
1977	4,784	9,779	16,500	1.8842	9,014	18,427	31,089
1978	5,512	10,556	17,700	1.7456	9,622	18,427	30,897
1979	6,032	11,479	22,900	1.6052	9,682	18,427	36,758
1980	6,448	12,513	25,900	1.4725	9,495	18,427	38,139
1981	6,968	13,773	29,700	1.3379	9,322	18,427	39,735
1982	6,968	14,531	32,400	1.2681	8,836	18,427	41,085
1983	6,968	15,239	35,700	1.2091	8,425	18,427	43,167
1984	6,968	16,135	37,800	1.1420	[4] 7,958	18,427	43,168
1985	6,968	16,823	39,600	1.0953	[4] 7,632	18,427	43,376
1986	6,968	17,322	42,000	1.0638	[4] 7,412	18,427	44,679
1987	6,968	18,427	43,800	1.0000	[4] 6,968	18,427	43,800
1988	6,968	[5] 19,205	45,000	1.0000	[4] 6,968	19,205	45,000

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[1] Worker with earnings equal to annualized Federal minimum wage.

[2] Worker with earnings equal to the SSA average wage index.

[3] Worker with earnings equal to the Social Security maximum taxable earnings.

[4] Dropout years.

[5] Estimate based on Alternative II–B assumptions in 1988 Trustees Report.

Source: Office of the Actuary, Social Security Administration.

Average monthly wage (AMW)

The AMW, which is used in computing benefits under the old pre-1979 benefit formula, is computed by: (1) determining the number of computation years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year the worker attains age 62 (age 65 for men born before January 2, 1911, and the later of age 62 or the year 1975 for men born after January 1, 1911), onset of disability or death, minus dropout years, generally 5 (minimum number of computation years is 2); (2) selecting the actual computation years, based on highest nonindexed earnings, from any years after 1950; and (3) dividing the sum of nonindexed earnings in the computation years by the total number of months in the computation years.

Primary insurance amount (PIA)

The monthly benefit amount payable to a retired worker who begins to receive benefits at his normal retirement age is his PIA rounded to the next lower dollar, if not already a multiple of $1. The PIA is used as a base for computing all benefits which are payable on the basis of that worker's earnings record.

The method of determining the PIA depends on whether an AIME or an AMW was computed for the worker. (This, of course, is determined on the basis of the worker's date of birth.) If an AMW has been computed for the worker, the PIA is determined through reference to benefit tables which are updated and published annually. Under a transitional guarantee provision of the 1977 amendments (which is applicable only to workers who attain age 62 in 1979–83), the PIA is determined on the basis of the frozen 1978 benefit table if it is higher than under the AIME method.

In cases where an AIME has been computed, the PIA is determined by applying the "primary benefit formula" to the AIME. For a worker reaching age 62 in 1989, the PIA equals 90 percent of the first $339 of AIME, 32 percent of the next $1,705 of AIME, and 15 percent of the AIME above $2,044. Applying this formula to the AIME's of the three example workers results in PIA's of $453.50 for the minimum-wage worker, $688.40 for the average-wage worker, and $917.60 for the maximum-wage worker. The numbers $339 and $2,044 are often referred to as "bend points." These are adjusted each year by the change in average wages.

After the year of initial eligibility (age 62 for retired worker benefits), the PIA is increased each year for the increase in the Consumer Price Index (CPI). Thus, the PIA's of $453.50, $688.40, and $917.60 would be in effect for January through November 1989, and will be increased by the cost-of-living adjustment that will increase benefits beginning December 1989 under current law.

BENEFIT AMOUNTS

The monthly benefit amount payable to a retired worker who begins to receive benefits at this normal retirement age is his PIA rounded to the next lower dollar, if not already a multiple of $1.

Workers attaining age 62 before 2000 (the year in which the retirement age begins to increase) who retire before age 65 will receive a benefit with an actuarial reduction. Retirement after age 65 results in an actuarial increase in the benefit payable.

After the year 2000, the minimum age of eligibility for reduced benefits will remain unchanged at age 62 (age 60 for widows and widowers). However, there will be increases in the amount of reduction for early retirement. The amount of reduction will be ⁵⁄₉ of 1 percent for each of the first 36 months of early retirement (as under present law), and ⁵⁄₁₂ of 1 percent for each month in excess of 36. Thus, for persons attaining age 62 during 2005–16, for whom the normal retirement age will be 66, the reduced benefit payable at age 62 will be 75 percent of the PIA. For persons attaining age 62 in 2022 and later, for whom the normal retirement age will be 67, the reduced benefit payable at age 62 will be 70 percent of the PIA. (See table 6.) There will be no increase in the maximum reduction for widow(er)s.

TABLE 6.—SCHEDULE OF BENEFITS, AS A PERCENTAGE OF PIA, PAYABLE AT SELECTED AGES, FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of attainment of age 62	Benefit, as a percentage of PIA, if retiring at age—		
	62	65	67
1986	80	100	106
1987	80	100	107
1988	80	100	107
1989	80	100	108
1990	80	100	108
1991	80	100	109
1992	80	100	109
1993	80	100	110
1994	80	100	110
1995	80	100	111
1996	80	100	111
1997	80	100	112
1998	80	100	112
1999	80	100	113
2000	79⅙	98⁸⁄₉	111¹¹⁄₁₂
2001	78⅓	97⁷⁄₉	111⅔
2002	77½	96⅔	110½
2003	76⅔	95⁵⁄₉	110
2004	75⅚	94⁴⁄₉	108¾
2005–16	75	93⅓	108
2017	74⅙	92²⁄₉	106⅔
2018	73⅓	91⅑	105⅓
2019	72½	90	104
2020	71⅔	88⁸⁄₉	102⅔
2021	70⅚	87⁷⁄₉	101½
2022 and later	70	86⅔	100

Auxiliary benefit amounts are also based on the worker's PIA. Table 7 lists major types of benefits with the percent of the insured worker's PIA which is paid.

TABLE 7.—PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENT'S AND SURVIVOR'S BENEFITS

Type of monthly benefit	Percent of PIA
Dependents: [1]	
Wives, husbands—age 65	[3] 50.0
Mothers, fathers, children, grandchildren	50.0
Survivors: [1]	
Widows, widowers—age 65 [2]	[3] 100.0
Dependent parent—age 62	82.5
Widows, widowers, disabled—age 50	71.5
Mothers, fathers, children	75.0

[1] Subject to maximum family benefit limitation.

[2] Subject to general limitation that survivor cannot get a higher benefit than deceased worker would be getting if alive.

[3] These percentages decrease as the normal retirement age increases beginning in the year 2000.

REPLACEMENT RATES

Frequently Social Security benefits are discussed in terms of how much of a person's preretirement earnings the benefits represent. Benefits expressed as a percent of earnings are called replacement rates. The following table shows replacement rates based on the PIAs of hypothetical workers who retired at age 65 after full-time careers with steady earnings equal to: (1) the Federal minimum wage, (2) average earnings in the economy (as recorded through the Social Security earnings index), and (3) the maximum earnings taxable each year for FICA and SECA tax purposes. A more complete table is included in appendix A.

TABLE 8.—SOCIAL SECURITY REPLACEMENT RATES, 1940–2040

[In percent]

Calendar year	Replacement rates [1]		
	Minimum earner	Average earner	Maximum earner
1940	39.8	26.3	16.5
1950	42.8	19.7	21.2
1960	45.0	33.3	29.8
1965	40.0	31.4	32.9
1970	42.7	34.3	29.2
1975	59.5	42.3	30.1
1976	57.9	43.7	32.1
1977	57.2	44.8	33.5
1978	62.7	46.7	34.7
1979	60.4	48.1	36.1
1980	64.0	51.1	32.5
1981	68.5	54.4	33.4
1982	63.8	48.7	28.6
1983	63.7	45.8	26.4
1984	62.4	42.9	23.7
1985	63.8	40.9	22.8
1986	65.7	41.2	23.1
1987	67.6	41.3	22.6
1988	71.2	40.9	23.1
1989	76.0	41.9	24.1
1990	77.4	42.8	24.4
2000	72.9	41.4	25.5
2010	68.6	41.4	27.2
2020	65.0	41.5	27.8
2030	62.1	41.5	27.8
2040	62.0	41.5	27.8

[1] Sum of monthly PIAs in year of entitlement at age 65, expressed as percent of earnings in year prior to entitlement. Projections for 1988 and later are based on the Intermediate II–B assumptions of the 1988 OASDI Trustees' Report.

Source: Office of the Actuary, Social Security Administration.

BENEFIT REDUCTION AND INCREASE

Social Security benefits may be reduced, withheld or increased for several reasons, chiefly on account of early retirement or delayed retirement, and on account of earnings in excess of the exempt amount provided in the law ($6,480 in 1989 for beneficiaries under age 65, and $8,880 for beneficiaries age 65-69). In addition, there is an overall limit on the total amount of benefits which can be paid at one time on the basis of any one earnings record.

Actuarial reduction. This is the reduction in the monthly benefit amount payable: (a) on entitlement at ages 62–64 if the beneficiary is a retired worker, a spouse of a retired or disabled worker (with entitlement not dependent on having a child beneficiary in his/her care), or a divorced spouse; (b) on entitlement at age 60–64 if the beneficiary is a widow, widower, or a surviving divorced spouse; or (c) on entitlement, in case of disability, at ages 50–59 if the beneficiary is a widow, widower, or surviving divorced spouse.

At the time of award, the following reductions in benefit amount are made for:

A retired-worker beneficiary—$\frac{5}{9}$ of 1 percent for each month of entitlement before age 65 (maximum reduction of 20 percent);

A wife or husband beneficiary—$\frac{25}{36}$ of 1 percent for each month of entitlement before age 65 (maximum reduction of 25 percent);

A widow including surviving divorced spouse—$\frac{19}{40}$ of 1 percent for each month of entitlement between age 60 (maximum reduction of 28.5 percent) and age 65. Disabled widow(er)s ages 50 to 59 receive 71.5 percent of the PIA.

The benefit continues to be paid at a reduced rate even after age 65, except that the reduced rate is refigured at age 65 for all beneficiaries and also at age 62 for a widow, widower, and a surviving divorced spouse to omit months for which the reduced benefits was not paid and to take into account any additional earnings. Data on benefits paid to retired workers in 1988 indicates that 68 percent of all such benefits were actuarially reduced (63 percent for men, 72 percent for women). Table 18 presents information on the number of actuarially reduced benefits paid in other years.

Delayed retirement credit. A credit for delayed retirement is due a worker for each month the worker: (1) was fully insured, (2) had attained age 65 but was not yet age 70, and (3) did not receive benefits because the worker had not filed an application or was working. Each monthly credit serves as a basis for increasing the monthly benefit (unless the benefit is based on a special minimum PIA) by $\frac{1}{12}$ of 1 percent for workers who attained age 62 before 1979 and by $\frac{1}{4}$ of 1 percent for workers attaining age 62 from 1978 through 1986. The increase is applicable to the worker's monthly benefits amount but not to his PIA. Hence, auxiliary benefits are generally not affected. The exception is that a surviving spouse (including divorced) receiving widow(er)'s benefits is entitled, for months after May 1978, to the same increase that had been applied to the benefit of the deceased worker or for which the worker was eligible for at the time of death.

As a result of the Social Security Amendments of 1983, beginning with workers who attain age 65 in 1990, (i.e., age 62 in 1987) the increment for delaying retirement past the normal retirement age will increase by $\frac{1}{2}$ of 1 percent every second year until reaching 8 percent per year of delayed retirement for workers attaining age 65 after 2007.

Maximum family benefit. The maximum monthly amount that can be paid on a worker's earnings record varies with his PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies between 150 and 188 percent of the PIA. No more than the established maximum can be paid to a family regardless of the number of beneficiaries entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts which are part of the PIA. For the family of a worker who becomes age 62 or dies in 1989, the total amount of benefits payable to them will be:

150 percent of the first $433 PIA, plus;

272 percent of PIA from $433 through $626, plus;
134 percent of PIA from $626 through $816 plus;
175 percent of PIA over $816.

The dollar amounts in this benefit formula (i.e. the "bend points") are adjusted annually by the same index used to update the bend points in the primary benefit formula.

Whenever the total of the individual monthly benefits payable to all the beneficiaries entitled on one earnings record exceeds the maximum, each dependent's or survivor's benefit is proportionately reduced to bring the total within the maximum.

In computing the total of the individual monthly benefits for entitlements based on a single earnings record, a benefit payable to a divorced spouse or to a surviving divorced spouse is not included.

Retirement test. The retirement test is a provision in the law that reduces benefits for recipients who earn income from work above a certain amount.

The test has been modified many times over the years. Currently, the law provides that beneficiaries under age 65 may earn up to $6,480 a year in wages or self-employment income without their benefits being affected. Beneficiaries age 65--69 can earn up to $8,880 a year. For earnings in excess of these amounts, $1 of benefits is lost for each $2 of earnings. The exempt amounts are adjusted each year to rise in proportion to average wages in the economy. The test does not apply to beneficiaries age 70 and over (they receive full benefits regardless of the level of their earnings). In addition, in the first year of entitlement (and last year for dependent beneficiaries), the so-called "grace year," a beneficiary may receive benefits for any month in which his or her earnings do not exceed one-twelfth of the annual exempt amount, regardless of annual earnings. For the self-employed, excess earnings cannot be charged to any month in which the individual does not perform "substantial services" in his or her trade or business.

Examples:

1. John—Age 63 with $4,000 in annual benefits before the retirement test is applied:

Earnings in 1989	$7,480
Exempt amount for under age 65	6,480
Excess over exempt amount	1,000
Benefit reduction = 50 percent of excess	500
Benefits John will receive in 1989	3,500

2. Ida—Age 67 with $4,000 in annual benefits before the retirement test is applied:

Earnings in 1989	$9,480
Exempt amount for 65 and older	8,880
Excess over exempt amount	600
Benefit reduction = 50 percent of excess	300
Benefits Ida will receive in 1989	3,700

Beginning in 1990, a more generous formula for beneficiaries aged 65–69 will go into effect. They will lose $1 in benefits for each $3 of earnings above the exempt amount.

The test does not apply to pensions, rents, dividends, interest, and other types of "unearned" income. These forms of income were exempted in order to encourage savings for retirement as supplements to Social Security.

History of the retirement test.—The retirement test was part of the original plan that led to Social Security. The 1935 report of the Committee on Economic Security appointed by President Franklin D. Roosevelt recommended that no benefits be paid before a person had "retired from gainful employment." Initially, the Social Security Act provided that benefits would not be paid for any month in which the individual had received "wages with respect to regular employment." Before any benefits were payable under the program, Congress modified this provision in the Social Security Amendments of 1939. No benefits would be paid for any month in which wages from covered employment were $15 or more. This arrangement prevailed until 1950.

The 1950 amendments extended Social Security coverage to the bulk of nonfarm self-employed workers. It was claimed that many self-employed people never retired and therefore would never receive benefits. As a result, the 1950 act exempted persons age 75 and over from the test. In addition, in the first of many actions to increase the amount of earnings permitted, allowable monthly income from wages was increased from $14.99 to $50.

Over the years, the earnings limits, the age limits, and the formulae for reducing benefits have been changed many times. Starting with the 1954 amendments, benefits were no longer totally withheld if the retiree had earnings above the exempt amount. Instead, a reduced benefit was payable. The 1972 amendments reduced benefits by $1 for every $2 of earnings above the exempt amount. The 1972 amendments also provided that, beginning in 1975, the exempt amounts would be "indexed" to rise at the same rate as wage growth. To compensate workers who did not receive benefits between ages 65 and 72, including those who did not because of the retirement test, the amendments established the delayed retirement credit.

In the consideration of major Social Security legislation in 1977, there was considerable pressure to eliminate the retirement test for persons over age 65. As a compromise, the limit on earnings was raised for persons age 65 and older, and since then two different exempt amounts have applied for those under and over age 65. The 1977 amendments also lowered from 72 to 70 the age at which the test would no longer apply, to be effective in 1982 (subsequent legislation postponed the effective date to 1983). In response to criticism that it discriminated in favor of workers who had substantial but irregular employment (e.g., teachers), Congress also eliminated the monthly test except for the first year of retirement. In 1980, Congress extended the "monthly test" to the year a dependent beneficiary became ineligible for benefits.

As part of major legislation restoring financial integrity to Social Security in 1983, Congress made two liberalizations affecting persons who continue to work after attaining retirement age. The first provided that beginning in 1990 beneficiaries who have attained the normal retirement age will lose only $1 in benefits for each $3 in earnings above the exempt amount. The second increased the delayed retirement credit (DRC). Currently, the DRC is equal to ¼ of 1 percent for each month (3 percent a year) beyond the full retirement age that a person does not receive benefits. Under the 1983 provision, the DRC will increase gradually to ⅔ percent a month over the period 1990 to 2009 (8 percent a year).

As a result of a legislative change in the Deficit Reduction Act of 1984, the Social Security Administration has begun to request earlier reports of earnings from beneficiaries who are most likely to have earnings in excess of the exempt amount. These beneficiaries may thus have their benefits ceased in the actual year of excess earnings, rather than receiving overpayments which must then be recouped later.

TABLE 9.—RETIREMENT TEST EXEMPT AMOUNTS

Year	Under age 65	Age 65 and over [2]
1975	$2,520	$2,520
1976	2,760	2,760
1977	3,000	3,000
1978	3,240	4,000
1979	3,480	4,500
1980	3,720	5,000
1981	4,080	5,500
1982	4,440	6,000
1983	4,920	6,600
1984	5,160	6,960
1985	5,400	7,320
1986	5,760	7,800
1987	6,000	8,160
1988	6,120	8,400
1989	6,480	8,880
1990	[1] 6,840	[1] 9,360
1991	[1] 7,200	[1] 9,840
1992	[1] 7,560	[1] 10,320
1993	[1] 7,920	[1] 10,920

[1] Based on President's fiscal year 1990 budget assumptions.

[2] In 1955–82, retirement earnings test did not apply at ages 72 and over; beginning in 1983, it does not apply at ages 70 and over.

Source: Office of the Actuary, Social Security Administration.

Impact of the retirement test.—In 1986, more than 8 million people age 65 to 69 received or were eligible to receive Social Security benefits. Almost one-fifth of this group—nearly 1.6 million people—had some earnings in 1986, but only 600,000 of them had their Social Security benefits reduced because of the retirement test. Thus, only 10 percent of persons age 65 to 69 who were eligible for benefits were affected by the test. The other 90 percent either did not work or had earnings below the exempt amount.

Those affected by the retirement test are more likely than those not affected: to be men; to live with their spouses; to have family incomes above $32,000; and to have family incomes above four times the poverty threshold—that is, more than approximately $21,000 for a single person and approximately $26,500 for a couple.

Beneficiaries affected by the retirement test tend to have higher family incomes than those not affected by the test. While only one-eighth of all beneficiaries had family incomes in 1986 above $42,000, more than 40 percent of those affected by the retirement test had incomes above that level. Table 10 shows the distribution by family income of those affected by the retirement test.

TABLE 10.—DISTRIBUTION IN 1986 OF PEOPLE AGED 65–69 ELIGIBLE TO RECEIVE SOCIAL SECURITY BENEFITS, BY FAMILY INCOME AND EARNINGS

[In percent]

Annual family income	Entire group	With no earnings	Earnings under limit	Earnings over limit
Men:				
Under $10,000	18	21	13	1
$10,000 to $14,999	16	18	19	2
$15,000 to $24,999	28	30	33	14
$25,000 to $31,999	11	11	11	12
$32,000 to $41,999	12	11	10	20
$42,000 to $49,999	4	4	3	9
$50,000 to $74,999	7	5	7	21
$75,000 and over	4	1	3	23
All incomes	100	100	100	100
Women:				
Under $10,000	26	28	21	(1)
$10,000 to $14,999	17	16	21	10
$15,000 to $24,999	27	26	32	28
$25,000 to $31,999	11	11	10	14
$32,000 to $41,999	9	8	8	23
$42,000 to $49,999	3	3	3	4
$50,000 to $74,999	5	5	4	14
$75,000 and over	2	2	1	8
All incomes	100	100	100	100
Men and women:				
Under $10,000	22	25	18	(1)
$10,000 to $14,999	17	17	20	5
$15,000 to $24,999	28	28	32	19
$25,000 to $31,999	11	11	10	12
$32,000 to $41,999	10	9	9	21
$42,000 to $49,999	4	3	3	7
$50,000 to $74,999	6	5	6	18
$75,000 and over	3	2	2	17
All incomes	100	100	100	100

[1] Less than 0.5 percent.

Notes.—Details may not add to totals because of rounding. Income is distinct from earnings: earnings are wages, salaries, and income from self-employment, and are only part of total income.

Source: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

Withholding. This is the suspension of benefit payments until the conditions causing deductions are known to have ended. Reasons for withholding benefits include: (1) earnings by a beneficiary (or any dependent drawing benefits on his earnings record) under age 70 from either covered or noncovered employment which exceeds the annual allowable amount (the retirement test); (2) failure of a wife under age 62 or mother or father beneficiary to have an entitled child in her care; (3) for special age-72 beneficiaries, receipt of public assistance or supplemental security income (SSI) payments or government pensions; (4) the payee is not determined; and (5) administrative reasons.

Some of the administrative reasons for withholding benefits are: (a) refusal of beneficiary to accept checks for personal reasons; (b) beneficiary's residence in certain foreign countries; and (c) under certain conditions, an alien beneficiary's residence outside the United States for more than 6 full consecutive calendar months.

Suspension of monthly benefit payments does not affect eligibility for hospital insurance benefits.

BENEFITS FOR RECIPIENTS OF PENSIONS FROM NONCOVERED EMPLOYMENT

The public pension offset. Social Security benefits payable to spouses of retired, disabled, or deceased workers are generally reduced to take account of any public pension the spouse receives as a result of work in a government job not covered by Social Security. The amount of the reduction is equal to two-thirds of the government pension. The offset does not apply to workers whose government job is covered by Social Security on the last day of the person's employment.

Generally, Federal workers hired before 1984 are part of the Civil Service Retirement System (CSRS) and are not covered by Social Security. Federal workers hired after 1983 are covered by the Federal Employee's Retirement System Act of 1986 (FERS), which includes coverage by Social Security. The FERS law provided employees covered by the CSRS the opportunity from July 1, 1987, to December 31, 1987, to make a one-time election to join FERS and thereby obtain Social Security coverage. Thus, a CSRS employee who switche to FERS during this period immediately became exempt from the government pension offset.

The "windfall" benefit. Under the so-called "windfall" benefit provision of the Social Security Amendments of 1983, Social Security benefits are generally reduced for workers who also have pensions from work that was not covered by Social Security (e.g., work under the Federal Civil Service Retirement System). Under the regular, weighted benefit formula, benefits are determined by applying a percentage to average indexed monthly earnings. In 1989, benefits equal 90 percent of the first $339 of average indexed monthly earnings, 32 percent of earnings from $339 to $2,044, and 15 percent of earnings above $2,044. The formula applicable to those with pensions from noncovered employment substitutes 40 percent for the 90 percent factor in the first bracket. (The second and third factors remain the same.) The resulting reduction in the worker's Social Security benefit is limited to one-half the amount of the noncovered pension. The new law is being phased in over a 5-year period beginning with those first eligible for Social Security benefits and noncovered pensions in 1986.

Workers who have 30 years or more of substantial Social Security coverage are fully exempt from this treatment. For workers who have 21–29 years of coverage, the percentage in the first bracket in the formula increases by 5 percentage points for each year over 20, as illustrated below:

Years of Social Security Coverage:	First factor in formula (percent):
20 or fewer	40
21	45
22	50
23	55
24	60
25	65
26	70
27	75
28	80
29	85
30 or more	90

AUTOMATIC BENEFIT ADJUSTMENTS

Benefit increases for Social Security and SSI recipients are based on increases in the cost of living as measured by the Bureau of Labor Statistics' Consumer Price Index (CPI). As a result of a provision contained in the Omnibus Budget Reconciliation Act of 1986, it is no longer necessary for the rise in the CPI to exceed 3 percent in order to trigger the annual cost-of-living adjustment (COLA). A COLA will now be provided in any year in which there is a measurable (0.1 percent) increase in consumer prices. If there was a year of price deflation and no COLA was provided, then a 2-year change in the CPI of at least 0.1 percent is needed before a COLA is provided.

Prior to 1984, the change in the CPI was measured from the first calendar quarter of the base year to the first calendar quarter of the current year. However, the benefit increases in 1984 and later years are based on the CPI increase from the third quarter of the base year through the third quarter of the year in which the benefit increase becomes effective. In addition, benefit increases beginning with the January 1986 check are based upon a price index in which the housing component is measured on a rental equivalence basis.

If the assets of the combined OASI and DI trust funds are below a certain reserve ratio (15 percent for 1984 through 1988, and 20 percent thereafter) and wages increase at a rate lower than inflation, the automatic benefit increase will be based on wage growth rather than inflation.

The Secretary of Health and Human Services (HHS) is required by law to publish the amount of the increase in the Federal Register within 45 days after the close of the measuring period. The benefit increase is effective in December and first appears in benefit checks received in January, i.e., 3 months after the close of the measuring period. (Prior to 1983 the benefit adjustment was effective in June and payable in July.)

Since a benefit increase was effective in 1987, that year became the base for the 1988 benefit increase. The CPI for the third quarter of 1987 was 113.3. This was the arithmetical average of the CPI for July, August and September, 1987.

Month in 1987:	CPI
July	112.7
August	113.3
September	113.8
Total	339.8

The average CPI for the 3rd quarter of 1987 is thus:

$$339.8/3=113.3$$

The CPI for the third quarter of 1988 was 117.8. This was the arithmetical average of the CPI for July, August and September, 1988.

Month in 1988:	CPI
July	117.2
August	117.7
September	118.5
Total	353.4

The average CPI for the 3rd quarter of 1988 is thus:

$$353.4/3=117.8$$

The percentage increase in the CPI from the third quarter of 1987 to the third quarter of 1988 is:

$$(117.8-113.3)/113.3=4.0 \text{ percent}$$

Thus, the benefit increase for December 1988 was 4.0 percent (and was reflected in the January 1989 checks).

The benefit increase is always rounded to the nearest 0.1 percent. It applies to all types of beneficiaries.

TABLE 11.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965–1988

[In percent]

	Increase in wages over prior year [1]	Increase in CPI over prior year [2]	Increase in benefits over prior year [3]
1965	1.8	1.7	7.0
1966	6.0	2.9	0
1967	5.6	2.9	0
1968	6.9	4.2	13.0
1969	5.8	5.4	0
1970	5.0	5.9	15.0
1971	5.0	4.3	10.0
1972	9.8	3.3	20.0
1973	6.3	6.2	0
1974	5.9	11.0	11.0
1975	7.5	9.1	8.0
1976	6.9	5.7	6.4
1977	6.0	6.5	5.9
1978	7.9	7.6	6.5
1979	8.7	11.4	9.9
1980	9.0	13.5	14.3
1981	10.1	10.2	11.2
1982	5.5	6.0	7.4
1983	4.9	3.0	[4] 3.5
1984	5.9	3.4	3.5
1985	4.3	3.5	3.1
1986	3.0	1.5	1.3
1987	6.4	3.6	4.2
1988	[5] 5.2	4.0	[6] 4.0

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[1] Average annual earnings series used to index earnings records.

[2] Increase in annual average CPI–W.

[3] Legislated benefit increases through 1975 and increases based on CPI thereafter. After 1975, the CPI and the benefit increases are different because they reflect the change in prices measured over different periods of time.

[4] As a result of the Social Security Amendments of 1983, COLA's are provided on a calendar year basis, with the benefit increase payable in January rather than July. The July 1983 COLA was delayed to January 1984. This delay and a change in the computation period led to 6 months of 1983 not being accounted for in any COLA increase.

[5] Preliminary.

[6] Effective December 1988, payable January 1989.

Source: Office of Research and Statistics, Social Security Administration.

TAXATION OF SOCIAL SECURITY (OASDI) BENEFITS FOR HIGHER-INCOME PERSONS

Beginning in 1984, as much as one-half of OASDI benefits (and railroad retirement tier 1 benefits) are included in taxable income for taxpayers with incomes above certain base amounts. The sum of a taxpayer's (1) adjusted gross income, (2) tax-free interest income and (3) one-half of OASDI benefits is compared to a base amount of $25,000 for a single taxpayer, or $32,000 for a married couple filing a joint tax return. If the sum exceeds the base amount, the amount of benefits to be included in taxable income is the lesser of:

(a) one-half of the excess of such sum over the base amount, or
(b) one-half of the amount of benefits received.

The following table contains several examples which illustrate the taxation of Social Security benefits.

EXAMPLES

	A	B	C	D	E
(1) Type of taxpayer	Single	Single	Couple	Couple	Couple
(2) Adjusted gross income	16,000	23,000	24,000	28,000	50,000
(3) Tax-free interest income	0	0	0	3,000	2,000
(4) Social Security	$4,000	$8,000	$3,000	$6,000	$10,000
(5) Sum of lines (2) plus (3) plus one-half of (4)	18,000	27,000	25,500	34,000	57,000
(6) Base amount	25,000	25,000	32,000	32,000	32,000
(7) Excess amount (line (5) minus (6))	−7,000	2,000	−6,500	2,000	25,000
(8) Amount of Social Security which is taxed. If line (7) is positive, lesser of one-half of lines (7) or (4). If line (7) is zero or negative, enter 0	0	1,000	0	1,000	5,000

The proceeds from the taxation of Social Security benefits are credited to the OASDI trust funds (see table 12).

For calendar year 1986, there were some 3.2 million tax returns (3 percent of all returns) with some Social Security benefits included in adjusted gross income. (Also see table 13.)

TABLE 12.—TAXATION OF SOCIAL SECURITY BENEFITS; LIABILITIES INCURRED AS A PERCENT OF TOTAL BENEFIT PAYMENTS

[Dollars in millions]

Fiscal year	Income tax liabilities incurred from the taxation of OASDI benefits	Total OASDI benefit payments	Income tax liabilities as a percent of total OASDI benefit payments
Past experience:			
1984	$2,275	$173,603	1.3
1985	3,368	183,959	1.8
1986	3,558	193,869	1.8
1987	3,307	202,430	1.6
Projected:			
1988	3,470	213,698	1.6
1989	3,892	227,008	1.7
1990	4,503	242,256	1.9
1991	5,067	258,565	2.0
1992	5,579	274,674	2.0
1993	6,073	291,258	2.1
1994	6,412	308,379	2.1

Source: Derived from data contained in the 1988 OASDI Trustees' Report, Intermediate II–B assumptions.

TABLE 13.—EFFECT OF TAXING SOCIAL SECURITY BENEFITS, BY INCOME CLASS, 1989

Level of individual or couple income [1]	Persons 65 and over		All recipients		Aggregate amount of Social Security benefits (in billions of dollars)	Aggregate amount of taxes on benefits (in billions of dollars)	Taxes as a percent of benefits
	Number (in thousands)	Number affected by taxation of benefits [2] (in thousands)	Number of Social Security beneficiaries [3] (in thousands)	Number affected by taxation of benefits (in thousands)			
Less than $10,000	9,124	0	11,560	0	53.7	0	0.0
$10,000 to $15,000	4,290	0	5,184	0	30.8	0	0.0
$15,000 to $20,000	3,483	0	4,094	0	25.7	0	0.0
$20,000 to $25,000	2,884	0	3,518	0	22.2	0	0.0
$25,000 to $30,000	2,278	122	2,751	167	17.5	(4)	0.1
$30,000 to $40,000	3,161	927	3,612	1,180	23.3	0.4	1.7
$40,000 to $50,000	1,657	1,430	1,810	1,710	12.3	.7	5.5
$50,000 to $100,000	2,119	1,891	2,224	2,217	15.0	1.9	12.8
At least $100,000	663	549	567	567	3.9	.6	15.5
All	29,659	4,919	35,319	5,840	204.4	3.6	1.8

[1] Cash income (based on income of tax filing unit), plus capital gains realizations.

[2] Some elderly individuals do not receive Social Security benefits and are thus not affected by taxation of benefits.

[3] Includes beneficiaries under and over age 65.

[4] Less than $50 million.

Note.—Aggregate benefits and revenues are understated by about 10 percent because of benefits paid abroad, deaths of recipients before March interview, and exclusion of institutionalized beneficiaries. The number of beneficiaries is also understated.

Source: Congressional Budget Office, based on data from the Current Population Survey (CPS).

LEGISLATIVE CHANGES MADE IN THE 97TH CONGRESS

The 97th Congress made numerous changes in the OASDI program. The major changes were included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35). Table 14 lists these changes and contains the most recent Congressional Budget Office estimates of their budgetary impact.

TABLE 14.—CONGRESSIONAL BUDGET OFFICE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASDI DURING 1981 (JANUARY 1982 ESTIMATES), FISCAL YEARS 1982-84

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Elimination of minimum benefit for future beneficiaries	−81	−180	−210
Elimination of benefits for postsecondary students	−567	−1,580	−2,033
Restrictions on payment of lump-sum death benefits	−200	−210	−215
Modification of month of initial entitlement for certain workers and their dependents	−190	−220	−240
Temporary extension of earnings limitation to include all persons aged less than 72	−380	−120	0
Termination of mother's and father's benefits when youngest child attains age 16	−30	−88	−496
Modification of rounding rules	−79	−272	−314
Cost reimbursement for provision of earnings information	−1	−2	−5
Revision of reimbursements for vocational rehabilitation services	−87	−86	−73
Modify worker's compensation offset to: (1) Apply offset to certain other public disability benefits-megacap; (2) apply offset to benefits of workers aged 62 to 64; and (3) begin offset in first month of dual benefit payment	−87	−122	−156
Extension of coverage to first 6 months of sick pay (revenue increase)	−534	−762	−828
Total OASDI	−2,236	−3,642	−4,570

LEGISLATIVE CHANGES MADE IN THE 98TH CONGRESS

The 98th Congress made extensive changes in OASDI programs in the Social Security Amendments of 1983 (Public Law 98-21), enacted to restore the financial status of the Social Security trust funds. Table 15 outlines the estimated outlay and revenues effects of the 1983 amendments under the alternative II-B assumptions of the 1983 Trustees' report. At the time, it was estimated that in the period 1983 through 1989 the OASDI and HI trust funds would receive $166.2 billion and $33.6 billion in additional financing, respectively.

TABLE 15.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS RESULTING FROM THE PROVISIONS IN PUBLIC LAW 98–21, BASED ON 1983 ALTERNATIVE II–B ASSUMPTIONS, CALENDAR YEARS 1983–89

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Increase tax rate on covered wages and salaries		8.6	0.3	......	......	14.5	16.0	39.4
Increase tax rate on covered self-employment earnings		1.1	3.1	3.0	3.2	3.7	4.4	18.5
Cover all Federal elected officials and political appointees		(1)	(1)	(1)	(1)	(1)	(1)	(.1)
Cover new Federal employees		.2	.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees		1.3	1.5	1.8	2.1	2.6	3.0	12.4
Total for new coverage		1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations		.1	2.	.4	6.	8.	1.1	3.2
Accelerate collection of State and local taxes		.6	(1)	(1)	.1	.1	.1	1.0
Modify general fund financing basis for non-contributory military service credits	18.4	−.4	−.4	−.3	−.4	−.4	−.4	16.1
Provide reimbursements from general fund for unnegotiated checks	1.3	.1	.1	.1	.1	.1	.1	1.6
Delay benefit increases 6 months	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Continue benefits on remarriage		(2)	(2)	(2)	(2)	(2)	(2)	−.1
Modify indexing of deferred survivors' benefits			(2)	(2)	(2)	(2)	(2)	(2)
Raised disabled widow(er)'s benefits to 71.5 percent of PIA		−.2	−.2	−.2	−.2	−.3	−.3	−1.4
Pay divorced spouses whether or not worker has retired			(2)	(2)	(2)	(2)	(2)	−.1
Replace 90-percent factor in benefit formula with variable percentage, for individuals receiving pensions from noncovered employment				(3)	(3)	(3)	.1	.1
Offset spouses benefits by up to two-thirds of noncovered Government pension	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Expand use of death certificates to stop benefits	(3)	(3)	(3)	(3)	(3)	(3)	(3)	.1
Impose 5-year residency requirement for certain aliens			(3)	(3)	(3)	(3)	(3)	.1
Tax one-half of benefits for high income beneficiaries		2.6	3.2	3.9	4.7	5.6	6.7	26.6
All other miscellaneous and technical changes	(2)	(2)	(2)	(2)	(2)	(2)	(2)	−.1
Total for all changes	22.8	19.2	13.9	15.3	18.0	35.8	41.2	166.2

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[1] New additional taxes of less than $50 million.

[2] Additional benefits of less than $50 million.

[3] Reduction in benefits of less than $50 million.

Note. Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reduction in benefits. Negative figures reductions in income or increases in benefits.

Source: Office of the Actuary, Social Security Administration, 1983.

LEGISLATIVE CHANGES IN THE 99TH CONGRESS

Several legislative changes were made in the Social Security program in the 99th Congress. The Consolidated Omnibus Reconciliation Act of 1985 (Public Law 99-272) included a variety of minor and technical legislative changes in Social Security. Additionally, Public Law 99-272 contained provisions to: (a) exempt wages paid retired Federal judges performing active duty for the purposes of the FICA taxation and the Social Security earnings limitation; and (b) to protect certain Social Security beneficiaries who receive overpayments through the electronic direct deposit system.

The Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509) included two significant Social Security provisions. The first eliminated the requirement that the annual rise in the Consumer Price Index must exceed 3 percent in order for a cost-of-living adjustment to be paid to Social Security beneficiaries. Under the new law, a cost-of-living adjustment will be paid in any year in which there is a measurable increase in consumer inflation. Secondly, Public Law 99-509 removed from the States the responsibility for collecting and depositing with the Federal Government Social Security contributions on behalf of their political subdivisions. All State and local entities now deposit their Social Security contributions directly to the Federal Government on a time schedule that parallels the treatment of private employers.

The Emergency Deficit Reduction and Balanced Budget Act of 1985 (Public Law 99-177) contained a provision to remove the receipts and disbursements of the Social Security trust funds from the unified budget effective in fiscal year 1986, and to restrict consideration of legislative changes in Social Security as part of the congressional budget process. The new law contained measures to bring the Federal budget into balance by fiscal year 1991. Under it, Social Security income and outgo are used in calculating the Federal deficit, but benefits are exempt from any automatic cuts required to reduce the deficit. Moreover, the act contained provisions making it difficult for Social Security changes to be brought up in the congressional budget process by permitting the raising of "points of order" against such measures.

LEGISLATIVE CHANGES IN THE 100TH CONGRESS

Extend FICA tax to certain earnings

Armed Services reservists.—FICA taxes were extended to "inactive duty training" (generally weekend training drill sessions).

Agricultural workers.—Wages paid to an employee who received less than $150 in annual cash remuneration by an agricultural employer were exempted from FICA tax even if the employer paid more than $2,500 in the year to all employees, provided the employee: (1) is a hand harvest laborer and is paid on a piece-rate basis in an operation which has been customarily recognized as having been paid on a piece-rate basis in the region of employment,

(2) commutes daily from his or her permanent residence, and (3) has been employed in agriculture less than 13 weeks during the preceding calendar year.

Individuals aged 18-21.—FICA taxes were extended to services performed by individuals between the ages of 18 and 21 who are employed in their parent's trade or business.

Spouses.—FICA taxes were extended to services performed by an individual in the employ of his or her spouse's trade or business.

Tips.—The employer's share of FICA taxes was extended to include all cash tips (up to the Social Security wage base).

Phase-out of reduction in windfall benefits

The phase-out of the reduction of benefits for workers with noncovered pensions was changed from 25 to 30 years of Social Security coverage to 20 to 30 years.

Treatment of group-term life insurance wages under FICA

Employer-provided group-term life insurance was included in wages for FICA tax purposes if such insurance were includable for gross income tax purposes, effective January 1, 1988.

Correction in government pension offset

Federal employees who switch from the Civil Service Retirement System (CSRS) to the Federal Employees' Retirement System (FERS) on or after January 1, 1988 were exempted from the government pension offset only if they had 5 or more years of Federal employment covered by Social Security after December 31, 1987.

Continuation of disability benefits pending appeal

The existing provision for continued payment of disability benefits during the administrative appeal process was extended through 1989.

Lengthening the extended period of eligibility for disability benefits

The extended period of eligibility during which a disability beneficiary who returns to work may become automatically reentitled to benefits was lengthened from the current 15 months to 36 months. Medicare eligibility is not continued beyond the period provided under current law.

Payment of attorneys' fees

The administrative policy which permits administrative law judges to authorize attorneys' fees of up to $3,000 without approval by an SSA regional office was reinstated.

CHARACTERISTICS OF BENEFICIARY POPULATION

Tables 16 through 18 provide detailed information on the numbers of various OASDI beneficiaries, the average amount of monthly benefits by type of beneficiary for new awards and for all beneficiaries currently receiving payments. More detailed information is shown in table 17 for December 1987.

TABLE 16.—OASI CASH BENEFITS: AVERAGE AMOUNT OF MONTHLY BENEFITS BY TYPE AND NUMBER OF BENEFICIARIES, CURRENT PAYMENT STATUS, DECEMBER 1988, AND NEW AWARDS, 1988

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Retired workers	23,858	$537	1,654	$507
Wives and husbands of retired workers	3,086	277	317	251
Children of retired workers	432	228	117	220
Surviving children	1,809	368	324	367
Widowed mothers and fathers	318	368	63	357
Widows and widowers	4,926	493	442	499
Disabled widow(er)s	103	348	15	348
Parents	7	428	.3	450

Source: Office of Research and Statistics, Social Security Administration.

TABLE 17.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1987

[Based on 10-percent sample]

Benefits by age and sex	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percentage of total benefits
Retired workers:				
Men:				
62 to 64	1,341	3.5	$521	4.0
65 to 69	3,722	9.8	557	11.8
70 to 79	5,260	13.8	621	18.6
80 to 89	1,739	4.6	547	5.4
90 and over	223	.6	493	.6
Total, retired men	12,285	32.2	578	40.4
Women:				
62 to 64	1,195	3.1	332	2.3
65 to 69	2,940	7.7	403	6.7
70 to 79	4,640	12.2	484	12.8
80 to 89	2,013	5.3	471	5.4
90 and over	346	.9	407	.8
Total, retired women	11,133	29.2	441	27.9
Total, retired workers	23,418	61.4	513	68.3

TABLE 17.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1987—Continued

[Based on 10-percent sample]

Benefits by age and sex	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percentage of total benefits
Disabled workers:				
Men:				
Under 50	684	1.8	522	2.0
50 to 59	606	1.6	579	2.0
60 to 61	209	.5	590	.7
62 to 64	364	1.0	597	1.2
Total, disabled men	1,863	4.9	563	6.0
Women:				
Under 50	316	.8	422	.8
50 to 59	316	.8	385	.7
60 to 61	108	.3	387	.2
62 to 64	186	.5	394	.4
Total, disabled women	925	2.4	400	2.1
Total, disabled workers	2,788	7.3	509	8.1
Wives of retired workers:				
With entitled children:				
Under 35	5	(1)	139	(1)
35 to 44	20	.1	149	(1)
45 to 54	33	.1	164	(1)
55 to 64	39	.1	201	(1)
Total, with entitled children	97	.3	175	.1
Without entitled children: 62 and over	2,963	7.8	269	4.5
Total, wives of retired workers	3,060	8.0	266	4.6
Total, husbands of retired workers	34	.1	178	(1)
Total, spouses of retired workers	3,094	8.1	265	4.7
Wives of disabled workers:				
With entitled children:				
Under 35	57	.2	98	(1)
35 to 44	93	.2	122	.1
45 to 54	50	.1	144	(1)
55 to 64	12	(1)	161	(1)
Total, with entitled children	212	.6	123	.2
Without entitled children: 62 and over	74	.2	174	.1
Total, wives of disabled workers	287	.8	136	.2
Total, husbands of disabled workers	6	(1)	88	(1)
Total, spouses of disabled workers	292	.8	135	.2

TABLE 17.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1987—Continued

[Based on 10-percent sample]

Benefits by age and sex	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percentage of total benefits
Children:				
Children of retired workers:				
0 to 6	21	.1	156	(1)
7 to 10	36	.1	158	(1)
11 to 17	204	.5	203	.3
18 to 19 (students)	13	(1)	255	(1)
Disabled children 18 and over to	167	.4	252	.2
Total, children of retired workers	441	1.2	217	.5
Children of deceased workers:				
0 to 6	149	.4	308	.3
7 to 10	269	.7	326	.5
11 to 17	1,010	2.6	369	2.1
18 to 19 (students)	47	.1	401	.1
Disabled children 18 and over	358	.9	339	.7
Total, children of deceased workers	1,833	4.8	353	3.7
Children of disabled workers:				
0 to 6	146	.4	112	.1
7 to 10	191	.5	121	.1
11 to 17	580	1.5	158	.5
18 to 19 (student)	21	.1	212	(1)
Disabled children 18 and over	36	.1	196	(1)
Total, children of disabled workers	973	2.5	147	.8
Total, children	3,246	8.5	273	5.0
Widowed mothers and fathers:				
Under 30	35	.1	328	.1
30 to 39	124	.3	339	.2
40 to 49	106	.3	366	.2
50 to 59	49	.1	373	.1
60 to 61	7	(1)	373	(1)
62 and over	8	(1)	372	(1)
Total, widowed mothers and fathers	330	.9	353	.7

TABLE 17.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1987—Continued

[Based on 10-percent sample]

Benefits by age and sex	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percentage of total benefits
Widows (nondisabled):				
60 to 61	182	.5	436	.5
62 to 64	449	1.2	447	1.1
65 to 69	899	2.4	480	2.5
70 to 79	1,742	4.6	479	4.7
80 to 89	1,249	3.3	468	3.3
90 and over	311	.8	433	.8
Total, widows	4,832	12.7	469	12.9
Widowers (nondisabled):				
60 to 61	5	(1)	289	(1)
62 to 64	9	(1)	377	(1)
65 to 69	5	(1)	380	(1)
70 to 74	4	(1)	328	(1)
75 to 79	3	(1)	352	(1)
80 to 84	3	(1)	343	(1)
85 and over	3	(1)	295	(1)
Total, widowers	33	.1	344	.1
Disabled widows and widowers:				
50 to 54	12	(1)	333	(1)
55 to 59	36	.1	332	.1
60	11	(1)	345	(1)
61	11	(1)	328	(1)
62	11	(1)	338	(1)
63	11	(1)	331	(1)
64	12	(1)	336	(1)
Total, disabled widows and widowers	106	.3	334	.2
Disabled widows	105	.3	336	.2
Disabled widowers	1	(1)	199	(1)
Parents: Total	8	(1)	406	(1)
Special age 72 beneficiaries (primary):				
Men	2	(1)	145	(1)
Women	18	(1)	145	(1)
Total special age 72 beneficiaries	20	.1	145	(1)
Total	38,167	100.0	461	100.0

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[1] Less than 0.1 percent.

Note.—Columns may not add due to rounding

Source: Office of Research and Statistics, Social Security Administration.

TABLE 18.—PERCENT OF SOCIAL SECURITY RETIRED-WORKER BENEFICIARIES RECEIVING REDUCED BENEFITS BECAUSE OF ENTITLEMENT BEFORE AGE 65, AS OF DECEMBER OF GIVEN YEAR

[Number column in millions]

Year	Total		Men		Women	
	Number	Percent	Number	Percent	Number	Percent
1956	5.1	2	3.6	(1)	1.5	7
1960	8.1	12	5.2	(1)	2.8	33
1965	11.1	32	6.8	21	4.3	49
1970	13.3	45	7.7	36	5.7	58
1975	16.6	56	9.2	49	7.4	66
1980	19.6	62	10.5	56	9.1	69
1985	22.4	66	11.8	61	10.6	71
1986	23.0	66	12.1	62	10.9	72
1987	23.4	67	12.3	63	11.1	72
1988	23.9	68	12.5	63	11.4	72

[1] Reduced benefits were not available to men until 1961. They were not available to women until 1956.

Source: Office of Research and Statistics, Social Security Administration.

The previous three tables have shown the number and average benefit classified by type of beneficiary and the percent who retire early. Many individuals receive benefits on their own record plus other benefits based upon earnings of their spouse or former spouse. Table 19 separates, by type of female beneficiary, the amount of benefits received on her own earnings record versus someone else's. For example, 10.2 million female beneficiaries over age 64 are insured and receive an average benefit of $475 or total benefits of $4.8 million. Some 6.8 million female beneficiaries over age 64 who are not insured receive an average benefit of $417. These benefits were all earned by a spouse or former spouse. Most of these benefits represent a survivor benefit. Table 20 presents similar information for male beneficiaries.

TABLE 19.—OASDI MONTHLY BENEFITS RECEIVED BY FEMALES, DECEMBER 1988 [1]

[Numbers in thousands; amounts in millions except averages]

	Total OASDI benefit	Based on own earnings record		Benefit received as dependent spouse			Benefit received as mother, parent, or special primary	Percent of total female benefits
		Old-Age	Disability	Retirement	Survivor	Disability		
Age 65 and over (insured)								
Number	10,174	10,174		[2] 1,497	[2] 2,428		[2] 2	
Total benefits	$4,836	$4,039		$174	$623		([3])	53.1
Average	$475.29	$396.93		$116.19	$256.54		$234.82	
Age 65 and over (not insured)								
Number	6,836			2,510	4,275	31	20	
Total benefits	$2,852			$716	$2,125	$6	$5	31.3
Average	$417.19			$285.33	$497.12	$180.51	$249.20	
Age 62 to 64 (insured)								
Number	1,382	1,197	185	[2] 347	[2] 32		([2] [4])	
Total benefits	$494	$369	$76	$39	$11		([3])	5.4
Average	$357.21	$308.08	$408.93	$110.94	$331.68		$359.71	
Age 62 to 64 (not insured)								
Number	985			462	474	41	8	
Total benefits	$348			$118	$219	$8	$3	3.8
Average	$353.54			$255.90	$462.60	$184.61	$406.20	
Age less than 62								
Number	1,592		768	81	246	202	294	
Total benefits	$576		$321	$14	$105	$25	$110	6.3
Average	$361.96		$418.15	$175.86	$429.12	$124.24	$373.96	
Total number	20,969	11,371	953	3,053	4,995	274	322	
Total benefits	$9,106	$4,407	$397	$1,061	$3,083	$38	$119	100.0
Average	$434.24	$387.58	$416.36	$347.54	$617.35	$139.65	$368.25	
Percent of total female benefits	100.0	48.4	4.4	11.7	33.9	0.4	1.3	

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[1] Table does not include female child beneficiaries. [2] Dually entitled. [3] Less than $500,000. [4] Less than 500.

Source: Office of the Actuary, Social Security Administration.

TABLE 20.—OASDI MONTHLY BENEFITS RECEIVED BY MALES, DECEMBER 1988 [1]

[Numbers in thousands; amounts in millions except averages]

	Total OASDI benefit	Based on own earnings record		Benefit received as dependent spouse			Benefit received as mother, parent, or special primary	Percent of total female benefits
		Old-Age	Disability	Retirement	Survivor	Disability		
Age 65 and over (insured)								
Number	11,151	11,151		(2)	(2)		(2)	
Total benefits	$6,816	$6,816		(2)	(2)		(2)	78.6
Average	$611.23	$611.23						
Age 65 and over (not insured)								
Number	53			31	19	1	2	
Total benefits	$13			$6	$7	(3)	(3)	0.2
Average	$247.07			$183.07	$363.86	$110.52	$220.18	
Age 62 to 64 (insured)								
Number	1,691	1,335	335	(2)	(2)		(2)	
Total benefits	$959	$737	$222	(2)	(2)		(2)	11.1
Average	$567.19	$551.59	$625.86					
Age 62 to 64 (not insured)								
Number	10			1	9	(4)	(4)	
Total benefits	$4			(3)	$3	(3)	(3)	(5)
Average	$346.88			$139.91	$382.05	$89.64	$315.41	
Age less than 62								
Number	1,548		1,522	(4)	7	5	15	
Total benefits	$885		$879	(3)	$2	(3)	$3	10.2
Average	$571.67		$577.90	$90.14	$285.91	$81.18	$228.97	
Total number	14,454	12,487	1,877	33	34	6	17	
Total benefits	$8,677	$7,553	$1,102	$6	$12	$1	$4	100.0
Average	$600.32	$604.85	$586.97	$181.48	$353.28	$86.55	$228.79	
Percent of total male benefits	100.0	87.0	12.7	0.1	0.1	(5)	(5)	

[1] Table does not include male child beneficiaries.
[2] Assumes all dually-entitled beneficiaries are female. [3] Less than $500,000. [4] Less than 500. [5] Less than 0.05 percent.

Source: Office of the Actuary, Social Security Administration.

TABLE 21.—1989 SUMMARY SOCIAL SECURITY INFORMATION

Tax rate:	
Employee and employer each	7.51 percent (6.06 percent—OASDI, 1.45 percent—HI).
Self-employed	15.02 percent (12.12 percent—OASDI, 2.90 percent—HI).
Wage Base	$48,000
Quarter of Coverage	$500 equals 1 QC.
Retirement Test Exempt Earnings Limits:	
Age 65 and over	$8,880 annual, $740.00 monthly.
Under age 65	$6,480 annual, $540.00 monthly.

BEND POINTS:

PIA	Maximum Family Benefit
90 percent of first $339 of AIME, plus 32 percent of AIME over $339 thru $2,044, plus 15 percent of AIME over $2,044.	150 percent of first $433 of PIA, plus 272 percent of PIA over $433 thru $626, plus 134 percent of PIA over $626 thru $816, plus 175 percent of PIA over $816.

BENEFIT EXAMPLES:

Retired Worker Age 65 in 1989—January 1989 PIA	Long-Range Constant Replacement Rate Under Decoupled System [1]
Fed. minimum wage earner, $439.50	Fed. minimum wage earner, 61 percent.
Average earner, $668.00	Average earner, 41 percent.
Maximum earner, $899.60	Maximum earner, 27 percent.
Average Earnings Level: 1987—$18,427, 1988 est.—$19,205 [2].	
Federal Minimum Wage Level [3] 1987—$6,968; 1988—$6,968.	

[1] For retirement at normal retirement age in 2030 and later.

[2] 1988 Trustees' Report—alternative II-B assumptions.

[3] 2,080 hours times the hourly Federal minimum wage.

Source: Office of Legislation and Congressional Affairs and Office of Research and Statistics, Social Security Administration.

TABLE 22.—MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1988, BY AVERAGE INDEXED MONTHLY EARNINGS FOR SELECTED WAGE LEVELS, EFFECTIVE DECEMBER 1988

Beneficiary family	Worker with yearly earnings equal to—				
	The Federal minimum wage [1]	75 percent of average wage	Average wage [2]	150 percent of average wage	Maximum wage creditable [3]
RETIRED WORKER FAMILIES [4]					
Average indexed monthly earnings	$759.00	$1,084.00	$1,446.00	$1,964.00	$2,311.00
Primary insurance amount	445.00	553.10	673.60	838.50	892.70
Maximum family benefit	693.90	988.20	1,230.10	1,467.80	1,562.70

TABLE 22.—MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1988, BY AVERAGE INDEXED MONTHLY EARNINGS FOR SELECTED WAGE LEVELS, EFFECTIVE DECEMBER 1988—Continued

Beneficiary family	Worker with yearly earnings equal to—				
	The Federal minimum wage [1]	75 percent of average wage	Average wage [2]	150 percent of average wage	Maximum wage creditable [3]
Monthly benefit amount—					
Retired worker claiming benefits at age 62 [4]					
Worker alone	356.00	442.00	538.00	670.00	714.00
Worker with spouse claiming benefits at–					
Age 65 or older	578.00	718.00	874.00	1,089.00	1,160.00
Age 62 [4]	522.00	649.00	790.00	984.00	1,048.00
SURVIVOR FAMILIES [5]					
Average indexed monthly earnings	$723.00	$1,087.00	$1,450.00	$2,175.00	$3,010.00
Primary insurance amount	432.90	554.10	674.90	871.50	1,001.70
Maximum family benefit	661.10	990.70	1,231.80	1,525.50	1,753.40
Monthly benefit amount—					
Survivors of worker deceased at age 40 [5]					
1 surviving child	324.00	415.00	506.00	653.00	751.00
Widowed mother or father and 1 child	648.00	830.00	1,012.00	1,306.00	1,502.00
Widowed mother or father and 2 children	660.00	990.00	1,230.00	1,524.00	1,752.00
DISABLED WORKER FAMILIES [6]					
Average indexed monthly earnings	$756.00	$1,085.00	$1,447.00	$2,056.00	$2,536.00
Primary insurance amount	443.90	553.40	673.90	852.90	927.70
Disability maximum family benefits [7]	665.90	830.20	1,010.80	1,279.30	1,391.60
Monthly benefit amount:					
Disabled worker age 50 [6]					
Worker alone	443.00	553.00	673.00	852.00	927.00
Worker, spouse, and 1 child	665.00	829.00	1,009.00	1,278.00	1,389.00

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[1] Worker earned the Federal minimum wage (currently $3.35 per hour) and worked 2,080 hours per year in all years used in the computation of the benefit.

[2] Worker earned the national average wage in each year used in the computation of the benefit.

[3] Worker earned the maximum amount of wages that can be credited to a worker's Social Security record in all years used in the computation of the benefit.

[4] Assumes the worker retired at age 62 in 1988 and had no prior period of disability.

[5] Assumes the deceased worker began to work at age 22, was deceased in 1988 at age 40, had no earnings in that year, and had no prior period of disability.

[6] Assumes the worker began to work at age 22, became disabled in 1988 at age 50, and had no prior period of disability.

[7] The 1980 Amendments to the Social Security Act provide for different family maximum amount for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's AIME (or 100 percent of the PIA, if larger) or (2) 150 percent of the PIA.

Source: Office of Research and Statistics, Social Security Administration.

Section 2. Disability Insurance Program

The disability insurance (DI) program provides monthly cash benefits for disabled workers under age 65 and their dependents. Benefits for the disabled were provided to disabled workers age 50 or older by the 1956 Social Security Amendments; benefits for their dependents were provided by the 1958 Social Security Amendments. Benefits to disabled workers under age 50 were provided by the 1960 amendments.

GENERAL

Many provisions of the DI program are identical to those of the OASI program. For example, all workers who are covered by OASI are also covered by DI. Contributions are made under the same provision of the Internal Revenue Code and are made on the same wage base.

The DI portion of the OASDI tax is allocated to the Disability Insurance Trust Fund which is the source of payment for monthly benefits to disabled workers and their dependents and for administrative expenses of the program. In addition, the revenue derived from the taxation of disability benefits is also credited to the trust fund.

The purpose of both OASI and DI benefits is to replace income lost when the wage-earner is no longer able to work. However, significant differences exist between the two programs, primarily because of the different nature of the event insured. The OASI program insures a worker, his dependents and survivors against loss of income due to the worker's retirement or death. The DI program insures against the loss of income due to the worker's physical or mental disability. In addition, the OASI program is administered solely by Federal employees in Federal installations, whereas the DI program is administered both through Federal Social Security offices and State disability determination services staffed by State employees.

BENEFITS

Summary

Monthly cash benefits are paid and computed generally on the same basis as in the OASI program. Benefit amounts are related to the past earnings of the insured worker.

In December 1988 there were 4.1 million DI beneficiaries in current-payment status. The total monthly benefits paid out were $1.70 billion. Table 1 summarizes various types of beneficiaries of the DI program currently receiving benefits, and average benefit amounts and the number of new awards during 1988.

TABLE 1.—DISABILITY CASH BENEFITS: NUMBER IN CURRENT PAYMENT STATUS AND AVERAGE BENEFIT AMOUNT (DECEMBER 1988) AND NUMBER OF BENEFITS AWARDED DURING THE YEAR AND AVERAGE BENEFIT AMOUNT, 1988

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Disabled workers	2,830	$530	409	$538
Wives and husbands of workers	281	138	74	138
Children of disabled workers	963	151	265	141

Source: Office of Research and Statistics, Social Security Administration.

Description of major benefit types

Disabled-worker benefit.—A monthly benefit payable to a disabled worker under age 65 insured for disability.

Spouses' benefit.—Monthly benefit payable to a spouse or divorced spouse of a disabled worker under one of the following conditions: (1) wife or husband is aged 62 or older or has 1 or more entitled children of the worker under age 16 in his or her care; or (2) divorced wife (husband) is aged 62 or older and her (his) marriage to worker lasted 10 years (20 years for benefits paid or applications filed before January 1979) before divorce became final.

Child's benefit.—A monthly benefit payable to an unmarried child or eligible grandchild of a disabled worker.

Disabled child's benefit.—A monthly benefit payable to a disabled person aged 18 or over—a dependent son or daughter or eligible grandson or granddaughter of a retired, deceased, or disabled worker—whose disability began before age 22.

Definition of disability

Generally, disability is defined as an inability to engage in any substantial gainful activity by reason of a physical or mental impairment. The impairment must be medically determinable and expected to last for not less than 12 months or to result in death. A person (other than a disabled widow or widower) may be determined to be disabled only if due to this impairment he is unable to engage in any kind of substantial gainful work, considering his age, education, and work experience, which exists in the national economy even though such work does not exist in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work.

There are special definition and eligibility requirements for persons who are blind.

A widow (or widower) can be determined to be disabled only if a physical or mental impairment exists of such a level of severity that makes it impossible to perform any gainful work (rather than substantial gainful work).

Waiting period

An initial 5-month waiting period is required before DI benefits will be paid. Benefits are payable for the 6th month. However, benefits may be paid for the 1st full month of disability to a worker who becomes disabled within 60 months (for a disabled widow or widower the period is 84 months) after termination of DI benefits from an earlier period of disability.

Insured status

Workers are *insured for disability* if they are fully insured and, except for persons who are blind or disabled before age 31, have a total of at least 20 quarters of coverage during the 40-quarter period ending with the quarter in which the worker became disabled. Workers who are disabled before age 31 must have total quarters of coverage equal to half the calendar quarters which have elapsed since the worker reached age 21, ending in the quarter in which the worker became disabled. However, a minimum of 6 quarters is required.

BENEFIT COMPUTATION

DI benefits are computed in the same manner as old age and survivors benefits except that the number of years of earnings which is excluded when determining the benefit amount is less than 5 for workers under age 47. The number of drop-out years allowed increases with the age of the insured worker at disablement. The amount of the monthly benefit is based on the insured worker's primary insurance amount (PIA).

The following table lists major disability benefits with the percentage of the insured worker's PIA.

TYPE OF MONTHLY BENEFIT

	Percent of PIA
Disabled worker (any age)	100
Dependents of disabled worker: [1] Wife or husband (age 62), mother, father, children and grandchildren	50
Survivors: [1] Disabled (age 50–59), widows or widowers	71.5

[1] Subject to maximum family benefit limitation.

Substantial gainful activity

The Secretary of HHS[1] has specific regulatory authority to prescribe the criteria for determining when earnings derived from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA).

The Secretary has published regulations specifying the monetary amounts which indicate substantial gainful activity. At the present time the SGA earnings level is $300 a month (net of impairment-related work expenses).

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[1] Throughout the remainder of this section when Secretary is used, it is the Secretary of Health and Human Services.

Trial work period

Under a provision enacted in December 1987, a 45-month period of extended eligibility for Social Security benefits is provided to disabled beneficiaries who attempt to work. The period consists of (1) a 9-month "trial work period" during which benefits are not suspended because of work, and (2) a 36-month "extended period of eligibility," during the last 33 of which benefits are suspended for any month in which the individual is engaged in substantial gainful activity (SGA). However, during the extended period of eligibility, entitlement to benefits is not terminated. Medicare benefits may be continued for 48 months after the trial work period begins.[2]

If an individual medically recovers to the extent that he no longer meets the definition of disability, benefits are terminated regardless of the "trial work" provision. Only one trial work period is permitted for each period of disability. Beneficiaries who qualified for benefits without a waiting period are not entitled to a trial work period. The Secretary of HHS has provided by regulation that earnings of $75 a month will constitute a month of "trial work."

DI maximum family benefit

The maximum monthly amount of DI family benefits which is payable on a disabled worker's earnings record for workers who first become entitled after June 1980, is the smaller of 85 percent of the worker's average indexed monthly earnings or 150 percent of the worker's primary insurance amount. However, in no case can the benefit be reduced below 100 percent of the worker's primary insurance amount.

Offset for other public disability benefits

When a disabled worker under age 65 qualifies on the basis of total or partial disability (whether or not permanent) for benefits which are provided by Federal, State and local governments and worker's compensation, the Social Security benefits payable to him and his family are reduced by the amount, if any, that the total monthly benefits payable under the two or more programs exceed 80 percent of his average current earnings before he became disabled. Needs-tested benefits, Veterans' Administration disability benefits, and benefits based on public employment covered by Social Security are not subject to the provision. A worker's average current earnings for this purpose are the larger of (a) the average monthly earnings used for computing his Social Security benefits, or (b) his average monthly earnings in employment or self-employment covered by Social Security during the 5 consecutive years of highest covered earnings after 1950, or (c) the average monthly earnings during the calendar year of highest earnings during a period consisting of the year in which disability began and the preceding 5 years without regard to the limitations which specify a maximum amount of earnings creditable for Social Security benefits. The combined payments after the reduction are never less than the total amount of the DI benefits payable before the reduction. In addition, the Social Security benefit is increased by the full amount of the cost-of-living increase as applied to the unreduced benefit. Every 3 years the original amount of benefits subject to reduction is redetermined to reflect changes in average wage levels. If increases in the average national wages would result in a higher benefit than that payable based on the original computation, the benefit is increased effective January of the redetermination year.

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[2] The continuation of Medicare benefits of a disabled worker was not affected by the recent lengthening of the trial work period for DI benefits. Under the law, Medicare benefits are paid for 24 months following the month that DI benefits would have been terminated after the "old law" trial work period (which was a maximum of 24 months).

The offset begins in the month during which concurrent entitlement begins under a Federal or State law.

The offset of the Social Security disability benefit will not be made if the State worker's compensation law provides for an offset against Social Security disability benefits. However, this waiver of the offset only applies where the State program began offsetting on or before February 18, 1981.

DETERMINATION OF DISABILITY

State agency determinations of disability

Disability determinations are made by State agencies which agree to make such determinations and substantially comply with the regulations of the Secretary. The Secretary is required to issue regulations specifying, in such detail as he or she deems appropriate, performance standards and administrative requirements and procedures to be followed in performing the disability determination function "in order to assure effective and uniform administration of the disability insurance program throughout the United States." Certain operational areas are cited as "examples" of what the regulations may specify. These include such items as the nature of the administrative structure, the physical location of and relationship among agency staff units, performance criteria and fiscal control procedures.

The law also provides that if the Secretary finds that a State agency is substantially failing to make disability determinations consistent with his regulations, the Secretary shall, not earlier than 180 days following his findings, terminate State administration and make the determinations himself. The law also allows for termination by the State. The State would be required to continue to make disability determinations for not less than 180 days after notifying the Secretary of its intent to terminate. Thereafter, the Secretary would be required to make the determinations.

Determining disability: Application of law and regulations

The adjudication of claims is accomplished on a sequential basis. Whether the individual is currently employed and the amount of earnings are the first factors considered. If the individual is earning the amount that indicates ability to engage in "substantial gainful activity" (SGA, now $300 a month), he is determined not disabled. If he is making less than this amount or not working at all, the severity and duration of the impairment are explored. If the severity is determined to be "not severe" (i.e., the individual's impairment does not significantly limit his capacity to perform work), the individual is denied right at that point. It is important to note that the "severity" step had become very controversial in recent years, with several Federal circuit courts ruling that SSA's procedures violate the intent of the law that every claimant receive an individual determination based on medical and vocational factors. However, in a recent decision, the Supreme Court, while raising a number of concerns about SSA's procedures, upheld the Agency's application of the "severity" test at this stage of the sequential process.[3] If the impairment is "severe," a determination is made as to whether the impairment "meets" or "equals" the medical listings published in regulations by SSA [4] and whether it will last for 12 months. If it neither "meets" nor "equals" the listing (which will result in an allowance) but meets the 12-month duration rule, a determination is then made of whether the claimant is able to carry out his former occupation. If he can, he is denied benefits; if he cannot, the nonmedical factors come into play.

At this stage, because of a judicial opinion and subsequent administrative and legislative ratification, the burden of proof switches to the Government to show that the individual can, considering his impairment, age, education, and work experience, engage in some other kind of substantial gainful activity which exists in a national economy. Such work, however, does not have to exist in the immediate area in which he lives and a specific job vacancy does not have to be available to him. Work in the national economy is defined in the law as a job which exists in significant numbers either in the region where such individual lives or in several regions of the country.

In the face of a growing number of nonmedical allowances and a declining number of cases where the medical listings were met, SSA in 1976 developed a vocational "grid" designed to reduce the subjectivity and lack of uniformity in applying the vocational factor. The grid regulations were designed to embody in a formula certain worker characteristics such as age, education, and past work experience, in relation to the individual's residual functional capacity (RFC) to perform work-related physical and mental activities. If the claimant has a particular level of residual work capability—characterized by the terms Sedentary, Light, Medium, Heavy and Very Heavy—an automatic finding of "disabled" or "not disabled" is required when applied to various combinations of age, education, and work experience.

The regulations were finally promulgated in February 1979 after some lengthy administrative hearings and consideration. During the period 1975–1983, there was a decline at the State agency level in the number of nonmedical allowances and an increase in the percentage of allowed cases which "met" or "equaled" the medical listings. Those percentages are presented in table 2 and show this trend has reversed itself since 1984. Moreover, there was an equally dramatic increase during the period from 1975 through 1983 in the number of denials on the basis of "impairment not severe" which under the sequential method of determining disability would exclude the consideration of the nonmedical factors. This trend also seems to have slowed since 1984. Table 3 gives a percentage distribution of the basis for denials at the initial determination of disability at the State agency level for fiscal years 1975 to 1988.

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[3] *Bowen* v. *Yuckert*, No. 85–1409, June 8, 1987.

[4] The Listing of Impairments contains over 100 examples of medical conditions that would ordinarily prevent an individual from engaging in any gainful activity. Each listing describes a degree of severity such that an individual who is not working and has such an impairment is considered unable to work by reason of the medical impairment. The listing describes specific medically acceptable clinical and laboratory findings and signs which establish the severity of the impairments. An impairment or combination of impairments is said to "equal the listings" if the medical findings for the impairment are at least equivalent in severity and duration to the listed findings of a listed impairment.

A widow or widower may qualify for benefits on the deceased spouse's work record at age 50 and over if he or she has "physical or mental impairments" at "a level of severity which under regulations prescribed by the Secretary is deemed to be sufficient to preclude an individual from engaging in any gainful activity." The regulations of the Secretary state that to qualify for disabled widows' benefits a person must have impairments which "meet the listings" or "are medically equivalent to those for any impairment shown there." Thus, vocational factors are not taken into account in determining the disability of a widow or widower.

TABLE 2.—BASIS FOR TITLE II ALLOWANCES—NATIONAL FIGURES: INITIAL WORKER DETERMINATION, FISCAL YEARS 1975–88

[In percent]

Fiscal year	Meets listing	Equals listing	Medical and vocational considerations
1975	29.4	43.9	26.7
1976	29.0	45.1	25.9
1977	34.2	41.9	23.9
1978	45.6	31.9	22.5
1979	55.1	22.7	22.1
1980	57.9	16.2	25.9
1981	63.9	12.3	23.8
1982	72.7	8.6	18.7
1983	74.0	8.3	17.7
1984	66.7	8.7	24.6
1985	62.7	9.2	28.1
1986	68.2	8.7	23.1
1987	66.0	10.2	23.8
1988	64.3	11.0	24.7

Source: Office of Disability, Social Security Administration.

TABLE 3.—BASIS FOR TITLE II DISALLOWANCES AND DENIALS—NATIONAL FIGURES: INITIAL WORK DETERMINATION, FISCAL YEARS 1975–88

[In percent]

	Duration	Slight impairment	Able to perform usual work	Able to perform other work	Engaging in SGA	Failure to cooperate	Failure to appear	Other
1975	19.6	8.4	44.3	18.2	1.0	5.1	1.8	1.6
1976	19.9	10.8	41.9	20.1	.4	4.8	1.8	.3
1977	21.2	24.8	30.0	15.7	.5	4.9	1.8	1.1
1978	21.1	31.8	25.0	14.6	.5	4.1	1.9	1.0
1979	20.0	41.6	21.5	12.5	.4	.9	2.3	.8
1980	20.6	39.0	23.7	12.7	....	1.9	1.3	.7
1981	17.5	43.2	18.7	11.3	2.0	....	2.6	4.8
1982	16.4	38.9	22.6	14.1	1.1	....	2.8	3.6
1983	16.9	39.4	22.0	14.3	1.0	....	3.0	3.4
1984	14.8	34.3	23.8	16.7	1.0	2.0	2.3	5.1
1985	15.4	23.3	35.4	20.3	1.1	....	2.2	2.3
1986	14.2	20.1	38.4	20.5	.2	....	2.5	4.1
1987	15.8	18.3	38.2	21.7	1.0	....	2.5	2.5
1988	16.0	20.4	34.3	23.0	.7	....	.6	5.0

Source: Office of Disability, Social Security Administration.

Federal review of State determination

The Secretary may, on his own motion, review any determination by a State agency.

The law requires that 65 percent of allowances (or continuances) of disability shall be reviewed by the Secretary.

Periodic review of individuals receiving disability benefits

The 1980 Disability Amendments required that the Social Security Administration reexamine every individual on the rolls who is determined to be nonpermanently disabled for benefit eligibility at least once every 3 years. Where there is a finding of permanency, the Secretary may reexamine at such times as is determined to be appropriate. These reviews are in addition to the administrative eligibility review procedures existing prior to the 1980 amendments. Legislation enacted in late 1982 provided authority for the Secretary to slow down the rate of continuing eligibility reviews mandated by the 1980 amendments.

Medical improvement standard

The 1984 Disability Benefits Reform Act amended the law to require that in continuing eligibility review cases, benefits may be terminated only if the Secretary finds that there has been medical improvement in the person's condition and that this improvement has enabled the person to engage in substantial gainful activity. There are several statutory exceptions to this standard, which are described in greater detail in the "Recent Legislation" section of this chapter.

Medical evidence

An individual is not considered under a disability unless he furnishes such medical and other evidence as the Secretary may require.

Under the law, the Secretary will generally reimburse physicians or hospitals for supplying medical evidence in support of claims for DI benefits. The Secretary also pays for medical examinations if this is needed to adjudicate the claim.

Attorneys' fees and representation

At the administrative level the Secretary of HHS is authorized to fix a reasonable fee for the services provided for a Social Security applicant by an attorney and to pay such attorney's fee out of the applicant's past-due benefits. The amount that can be paid out of past-due benefits is limited to the smaller of (a) 25 percent of the past-due benefits; (b) the fee fixed by the Secretary; or (c) an amount agreed to by the applicant and the attorney. The Secretary certifies the payment to the attorney.

Under prior administrative policy, ALJ's were permitted to authorize attorneys' fees of up to $3,000 without approval by an SSA regional office. Early in 1987, SSA reduced this amount to $1,500. In response to the subsequent controversy and large backlog of cases which resulted, Congress reinstated the $3,000 limit in the Budget Reconciliation Act of 1987 (Public Law 100-203). (See "Recent Legislation.")

A court which renders a decision favorable to a claimant for social security benefits is permitted to set a reasonable fee for the attorney who represented the claimant before the court. The fee cannot exceed 25 percent of the past-due benefits which result from the court's decision. The Secretary may certify for payments to the attorney, out of the total of the past-due benefits, the amount of the fee set by the court.

VOCATIONAL REHABILITATION

The Social Security Act requires that disabled persons applying for a determination of disability be promptly referred to State vocational rehabilitation agencies for necessary rehabilitation services. The act provides for withholding of benefits for refusal, without good cause, to accept rehabilitation services available under a State plan approved under the Vocational Rehabilitation Act in such amounts as the Secretary shall determine.

Public Law 97-35 eliminated reimbursement from the trust funds to the State vocational rehabilitation agencies for rehabilitation services except in cases where the services have resulted in the beneficiary's performance of substantial gainful activity (SGA) for a continuous period of at least 9 months. Such a 9-month period could begin while the individual is under a vocational rehabilitation program and may also coincide with the trial work period or the individual's waiting period for benefits. The services must be performed under a State plan for vocational rehabilitation services under title I of the Rehabilitation Act. In the case of any State which is unwilling to participate or which does not have a plan which meets the requirements of the Vocational Rehabilitation Act, the Commissioner of Social Security may provide such services by agreement or contract with other public or private agencies, organizations, institutions or individuals. The determination that the VR services contributed to the successful return of the individual to SGA, and the determination of the amount of costs to be reimbursed, are made by the Commissioner of Social Security in accordance with criteria formulated by him. Payments under this provision can be made in advance or by way of reimbursement, with necessary adjustments for overpayments or underpayments.

DISABILITY CLAIMS AND APPEALS STRUCTURE

The Social Security appeals and case review process is a complex multilayered structure which is inextricably linked with the disability determination process. Since about 97 percent of the hearing requests involve disability claims (both Social Security and SSI), the process described will be for that type of claim. The application for disability benefits is made at the Federal Social Security district office where the claimant is interviewed and the sources of medical evidence are recorded. After determining whether the applicant meets the insured status requirements, the case is then sent to the State agency which, operating as an agent of the Social Security Administration, makes the initial determination of disability. If a claimant or terminated beneficiary is dissatisfied with an initial denial or termination of disability benefits by the State agency, he can request a reconsideration within 60 days of notice of denial. The reconsideration is also carried out by the State agency, but by personnel other than those who made the initial determination. If upon reconsideration the claimant is again denied benefits, he will be given a hearing before an administrative law judge (ALJ), providing he files a request within 60 days of notice of denial. If the claim is denied by the ALJ, the claimant has 60 days to request review by the Appeals Council. The Appeals Council may also, on its own motion, review a decision within 90 days of the ALJ's decision. The 1980 Disability Amendments required the Secretary to review a percentage of ALJ hearing decisions, and this review is being conducted by the Appeals Council.

The Appeals Council may review, affirm, modify or reverse the decision of the ALJ, or it may remand it to the ALJ for further development. The claimant is notified in writing of the final action of the Appeals Council, and is informed of his right to obtain further review by commencing a civil action within 60 days in a United States district court.

Under current law, as amended by the 1984 Disability Benefits Reform Act, DI beneficiaries whose benefits have been terminated for medical reasons, e.g., recovery or improvement in the medical condition which was the basis for the disability, can elect to continue to receive benefits through the appeals process. These benefits are subject to recovery as an overpayment, however, in the event that the initial termination decision is upheld by an administrative law judge.

Table 4 shows the number of cases allowed and appealed at various levels of appeal for application decisions and Continuing Disability Reviews (CDRs) processed by State agencies. Of the 1,516,873 initial application decisions by State agencies in fiscal year 1988, some 36 percent were allowed and of the 318,134 CDRs 88 percent were continued in benefit status.

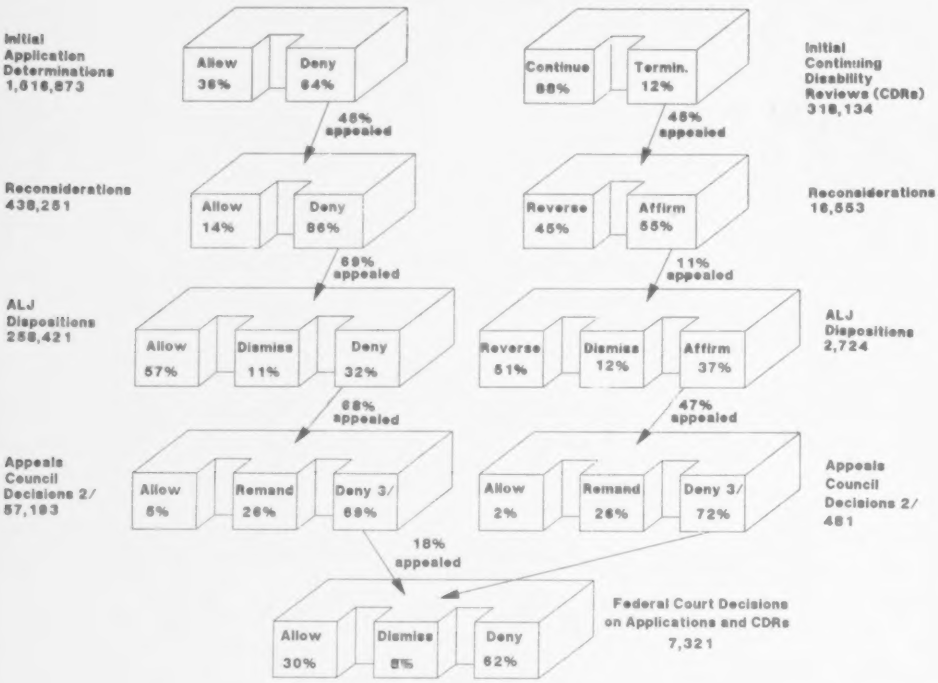
Of the initial application decisions some 64 percent were denied. Nearly half (45 percent) of these appealed their denials to the reconsideration level. After all levels of appeal had been exhausted, about 21 percent of those denied benefits initially had benefits granted to them through the appeals process. When appeals allowances are considered, some 51 percent of the initial application decisions were finally denied.

Of the initial CDRs some 12 percent were terminated. Nearly half (45 percent) of these appealed their terminations. After all levels of appeal had been exhausted, about 21 percent of those terminated initially had continuation of benefits granted through the appeals process. When appeals continuances are considered, about 9 percent of the initial CDRs were finally terminated.

Table 5 presents information for fiscal years 1979 through 1988 of the number of cases which are reviewed and reversed at the administrative law judge level. Approximately 57.1 percent of initial denials were reversed in 1987 (that is, judged favorable to the individual) and 59.2 percent were reversed in 1988.

TABLE 4.—DISABILITY DETERMINATIONS AND APPEALS, FISCAL YEAR 1988

TITLE II, TITLE XVI AND CONCURRENT TITLE II AND XVI DECISIONS FOR DISABILITY CLAIMS BY WORKERS, WIDOWS, WIDOWERS AND DISABLED ADULT CHILDREN [1]


Initial Application Determinations 1,616,873
Allow 36%
Deny 64%
45% appealed
Reconsiderations 438,251
Allow 14%
Deny 86%
69% appealed
ALJ Dispositions 258,421
Allow 57%
Dismiss 11%
Deny 32%
68% appealed
Appeals Council Decisions 2/ 57,193
Allow 6%
Remand 26%
Deny 3/ 68%
18% appealed
Initial Continuing Disability Reviews (CDRs) 318,134
Continue 88%
Termin. 12%
45% appealed
Reconsiderations 16,553
Reverse 45%
Affirm 55%
11% appealed
ALJ Dispositions 2,724
Reverse 51%
Dismiss 12%
Affirm 37%
47% appealed
Appeals Council Decisions 2/ 481
Allow 2%
Remand 26%
Deny 3/ 72%
Federal Court Decisions on Applications and CDRs 7,321
Allow 30%
Dismiss 8%
Deny 62%

% of Total Allowances	
Total	100.0
Initial Decisions 4/	78.8
Initial Applications	51.8
CDR	27.0
Reconsiderations	6.5
ALJs	14.2
Appeals Council	.3
Federal Court	.2

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[1] The data relate to workloads processed at various levels in fiscal year 1987, but include some cases where the initial level decision was made in a prior period. The data include determinations on initial applications as well as continuing disability reviews (both periodic reviews and medical diary cases).

[2] Includes ALJ decisions not appealed further by the claimant but reviewed by the Appeals Council on its "own motion" authority.

[3] Includes dismissals, denials of requests for review, and affirmations of denial.

[4] Initial determinations plus CDRs.

Source: Office of Disability, Social Security Administration.

TABLE 5.—ADMINISTRATIVE LAW JUDGE FAVORABLE RATES—DISABILITY INSURANCE [1] INITIAL DENIALS AND TERMINATIONS,[2] FISCAL YEARS 1979–88

	Dismissed	Unfavorable	Favorable	Total	Percent favorable
Fiscal year 1979:					
Initial denials	6,332	31,485	48,934	86,751	56.4
Terminations	1,401	4,078	8,052	13,531	59.5
Fiscal year 1980:					
Initial denials	7,093	31,703	56,733	95,529	59.4
Terminations	1,431	4,197	9,909	15,537	63.8
Fiscal year 1981:					
Initial denials	15,141	59,930	98,129	173,200	56.7
Terminations	2,623	6,945	16,685	26,253	63.6
Fiscal year 1982:					
Initial denials	15,403	67,481	91,865	174,749	52.6
Terminations	4,670	17,502	37,306	59,478	62.7
Fiscal year 1983:					
Initial denials	14,334	65,626	79,427	159,387	49.8
Terminations	9,247	37,284	73,821	120,352	61.3
Fiscal year 1984:					
Initial denials	15,075	63,381	88,301	166,757	53.0
Terminations	25,681	22,590	56,327	104,598	53.9
Fiscal year 1985:					
Initial denials	14,806	61,161	92,118	168,085	54.8
Terminations	4,176	2,415	3,126	9,717	32.2
Fiscal year 1986:					
Initial denials	28,792	44,223	78,737	151,752	51.9
Terminations	1,095	2,129	2,014	5,238	38.4
Fiscal year 1987:					
Initial denials	15,271	58,412	98,180	171,863	57.1
Terminations	812	1,954	2,014	4,780	42.1
Fiscal year 1988:					
Initial denials	18,213	58,788	111,748	188,749	59.2
Terminations	1,031	2,807	3,426	7,264	47.2

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[1] Includes title II and concurrent title II/title XVI disability cases and concurrent title II/title XVI aged cases.

[2] Includes all termination cases regardless of the basis for termination.

Source: Office of Hearings and Appeals, Social Security Administration.

Table 6 presents information on the number of continuing disability reviews—title II cases—that were conducted in fiscal years 1977–88. From fiscal year 1977 to 1981 the number of cases reviewed ranged from 2.4 percent to 4.9 percent of the total number of disabled persons on the Social Security rolls. With the administration's implementation of the provision of the 1980 disability amendments calling for more periodic reviews of eligibility, in 1981–83 the percent of cases reviewed rose sharply, reaching 13.5 percent of the caseload in 1983, the highest rate of review during the 11-year period. While the number of reviewed cases rose, the percent of cases terminated at the initial stage of review stayed fairly stable. The initial-stage termination rate during the 1977–83 period ranged from about 39 to 48 percent, and for the most part hovered in the range of 45 to 48 percent. Thus, the number of terminations rose sharply beginning in 1981 as the case-review workload mounted, peaking at 182,000 in 1983. This was more than four times the number of annual initial-stage terminations that occurred during the 1977–80 period. A sharp decline in the number of reviews occurred in 1984 and 1985, reflecting the Secretary's moratorium on reviews pending enactment of the 1984 disability legislation and the subsequent delay in implementing the legislation. Only a little more than 3,000 cases were reviewed in 1985 and less than 2,800 initial-stage terminations were rendered.

With the reimplementation of the review process in the spring of 1986, the number of cases subjected to reexamination began rising again. Approximately 45,000 cases were reviewed in 1986, 164,000 cases in 1987, and 291,000 cases in 1988. The percent of the disability rolls reviewed in 1988 reached 8.3 percent, a higher level than that reached in 1981 and considerably higher than the levels of the 1977–80 period. In contrast to those earlier years, however, the rate of termination under the new review procedures has thus far been much lower. Approximately 5 to 12 percent of the cases reviewed during 1986–88 were terminated, far lower than the 39–47 percent termination rate of the 1977–80 period. Consequently, while the number of cases being reviewed now appears to be relatively high, the number of initial-stage terminations is much lower than in the 1977–80 period.

TABLE 6.—CONTINUING DISABILITY REVIEWS (CDR) INITIAL DECISIONS: TITLE II DISABLED WORKERS, DISABLED WIDOWS AND WIDOWERS, AND DISABLED CHILDREN CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977–88

	Cessations		Continuations		Total cases		
	Number	Percent	Number	Percent	Cessations and continuations	Total disabled persons	Percent reviewed
1977	41,475	38.7	65,745	61.3	107,220	[1] 3,322,230	3.2
1978	38,847	46.4	44,804	53.6	83,651	3,447,767	2.4
1979	45,216	48.1	48,868	51.9	94,084	3,457,837	2.7
1980	44,273	46.8	50,227	53.2	94,550	3,454,010	2.7
1981	80,956	47.9	87,966	52.1	168,922	3,413,602	4.9
1982	179,857	44.8	221,325	55.2	401,182	3,263,354	12.3
1983	182,074	41.7	254,424	58.3	436,498	3,226,888	13.5
1984 [2]	31,927	24.6	97,752	75.4	129,679	3,249,367	4.0
1985 [2]	2,785	85.4	475	14.6	3,260	3,332,870	.1
1986	2,554	5.6	42,805	94.4	45,359	3,261,768	1.4
1987	20,343	12.4	143,712	87.6	164,055	3,433,524	4.8
1988	33,565	11.5	257,377	88.5	290,942	3,492,762	8.3

[1] In current pay at end of fiscal year.

[2] The decline in the number of reviews in 1984 and 1985 was due to the national moratorium on reviews pending enactment and implementation of the new legislation with revised criteria for CDI's (enacted in 1984, regulations promulgated late 1985).

Source: Office of Disability, Social Security Administration.

RECENT EXPERIENCE IN THE DISABILITY PROGRAM

After peaking at an all-time high in 1978, the number of beneficiaries on the DI rolls declined significantly from 4.868 million in 1978 to 3.813 million in December 1983. This was a decline of 21.7 percent. The number of awards declined from 592,049 in 1975 to approximately 298,531 in 1982. Awards increased in 1985 (377,371) and 1986 (416,865) and declined in 1987 (415,848) and 1988 (409,490). The incidence of disability (number of awards per 1,000 insured workers) fell from an all-time high of 7.1 in 1975 to 2.9 in 1982, the lowest incidence rate in the history of the program, and now stands at 3.6 for 1988. (See table 7.)

Table 8 shows the number of DI beneficiaries for selected years.

TABLE 7.—DISABLED WORKERS' APPLICATIONS, AWARDS AND RATIO OF AWARDS TO APPLICATIONS AND AWARDS PER 1,000 INSURED WORKERS FOR 1960, 1965, 1970 TO 1988

	Number of applications (in thousands)	Total awards	Total awards divided by total applications (percent)	Awards per 1,000 insured workers
1960	418.6	207,805	50	4.5
1965	532.9	253,499	48	4.7
1970	868.2	350,384	40	4.8
1971	924.4	415,897	45	5.6
1972	947.8	455,438	48	6.0
1973	1,066.9	491,616	46	6.3
1974	1,330.2	535,977	40	6.7
1975	1,285.3	592,049	46	7.1
1976	1,232.2	551,460	45	6.5
1977	1,235.2	568,874	46	6.5
1978	1,184.7	464,415	39	5.2
1979	1,187.8	416,713	35	4.4
1980	1,262.3	396,559	31	4.0
1981	1,161.3	345,254	30	3.4
1982	1,020.0	298,531	29	2.9
1983	1,017.7	311,491	31	3.0
1984	1,035.7	357,141	34	3.4
1985	1,066.2	377,371	35	3.5
1986	1,118.4	416,865	37	3.8
1987	1,108.9	415,848	37	3.7
1988	1,017.9	409,490	40	3.6

Source: Office of the Actuary, Social Security Administration.

TABLE 8.—NUMBER OF DISABILITY INSURANCE BENEFICIARIES FOR SELECTED YEARS: 1960–88

[Current payment status, December]

	Disabled workers	Spouses	Children	Total
Year:				
1960	455,371	76,599	155,481	687,451
1965	988,074	193,362	557,615	1,739,051
1970	1,492,948	283,447	888,600	2,664,995
1975	2,488,774	452,922	1,410,504	4,352,200
1980	2,861,253	462,204	1,358,715	4,682,172
1981	2,776,519	428,212	1,251,543	4,456,274
1982	2,603,713	365,883	1,003,869	3,973,465
1983	2,568,966	308,060	935,904	3,812,930
1984	2,596,535	303,984	921,285	3,821,804
1985	2,656,500	305,528	945,141	3,907,169
1986	2,727,386	300,592	965,301	3,993,279
1987	2,785,885	290,895	967,944	4,044,724
1988	2,830,284	280,821	963,195	4,074,300

Source: Office of Research and Statistics, Social Security Administration.

Tables 9 through 11 present data on the demographic, social, and medical characteristics of the disabled population over time. For instance, Table 9 shows the increase in the receipt of benefits by women, which reflects larger societal trends in female workforce participation. Table 10 indicates the higher levels of educational attainment that characterize the present disabled population in comparison to that of 1970.

CHARACTERISTICS OF DI BENEFICIARIES

TABLE 9.—PERCENT DISTRIBUTION BY AGE AND SEX OF DISABLED WORKER BENEFICIARIES ALLOWED BENEFITS IN SELECTED YEARS 1970–88, COMPARED WITH ADULT U.S. POPULATION

Characteristics	Year allowed benefits								Adult U.S. population [1]
	1970	1975	1979	1982	1985	1986	1987	1988	
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Age:									
Under 35	9.0	11.0	13.6	14.4	16.8	17.2	17.1	15.2	49.0
35 to 44	11.0	10.0	11.5	12.3	15.0	16.0	16.0	16.5	19.0
45 to 54	26.0	26.0	27.2	26.5	25.7	22.7	22.9	23.3	16.0
55 to 59	24.0	23.0	27.0	27.2	23.9	21.4	20.8	20.6	8.0
60 and over	30.0	30.0	20.6	19.6	18.7	22.7	23.2	24.4	8.0
Median age (years)	56.0	55.6	53.4	53.1	51.7	53.0	53.0	52.4	35.4
Sex:									
Male	74	68	69	70	67	67	66	66	49
Female	26	32	31	30	33	33	34	34	51

[1] Derived from 1980 Census; based on population aged 18–64.

Source: Office of Disability, Social Security Administration.

TABLE 10.—PERCENT DISTRIBUTION BY EDUCATION AND OCCUPATION OF DISABLED WORKER BENEFICIARIES ALLOWED BENEFITS IN SELECTED YEARS 1970–88, COMPARED WITH ADULT U.S. POPULATION

Education and occupation	Year allowed benefits								Adult U.S. population [1]
	1970	1975	1979	1982	1985	1986	1987	1988	
Total percent	100	100	100	100	100	100	100	100	100
Education (years of school completed):									
No schooling	2	1	1	1	[2] 2	[3] 1	[4] 1	[5] 1	2
Elementary school (1 to 8)	44	37	29	26	23	21	18	18	17
High school	46	52	55	56	59	59	57	59	51
9 to 11	23	24	23	22	22	21	19	20	14
12	23	28	32	34	37	38	38	39	37
Some college	9	10	12	14	14	15	16	15	32
Unknown	0	0	3	3	2	5	8	7	2
Occupation:									
Professional, technical and managerial	12	18	14	14	NA	NA	NA	NA	24
Clerical and sales	15	14	15	15	NA	NA	NA	NA	25
Service	18	17	15	14	NA	NA	NA	NA	12
Farming	6	4	4	3	NA	NA	NA	NA	3
Transportation, packaging and handling, mineral extraction	14	12	12	12	NA	NA	NA	NA	18
Machine trades	11	10	10	10	NA	NA	NA	NA	18
Bench work	6	7	6	5					
Processing	3	3	3	4					
Structural work	15	15	14	15					
Unknown	0	0	7	8					

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[1] Derived from 1980 Census. Figures for education based on persons aged 25 and over. Figures for occupation based on employed population aged 18–64.

[2] Special schools for handicapped (1.2 percent) and no schooling (0.7 percent).

[3] Special schools for handicapped (0.3 percent) and no schooling (0.6 percent).

[4] Special schools for handicapped (0.3 percent) and no schooling (0.5 percent).

[5] Special schools for handicapped (0.3 percent) and no schooling (0.3 percent).

Source: Office of Disability, Social Security Administration.

NA—Not available.

TABLE 11.—PERCENT DISTRIBUTION BY DISABLING CONDITION AND MOBILITY OF DISABLED WORKER BENEFICIARIES ALLOWED BENEFITS IN SELECTED YEARS 1970–88

Disabling condition and mobility	Year allowed benefits						
	1970	1975	1979	1982	1985	1987	1988
Total percent	100	100	100	100	100	100	100
Disabling condition:							
Infective and parasitic diseases	3	1	1	1	1	1	0
Neoplasms	10	10	14	17	15	12	16
Allergic, endocrine system, metabolic and nutritional diseases	4	3	3	4	5	5	3
Mental, psychoneurotic and personality disorders	11	11	11	11	18	23	22
Diseases of the nervous system and sense organs	6	7	8	9	8	8	8
Circulatory system	31	32	28	25	19	17	18
Respiratory system	7	7	6	7	5	5	5
Digestive system	3	3	2	2	2	1	2
Skeletal musculo	15	17	17	16	13	14	14
Accidents, poisonings and violence	8	6	6	6	4	5	5
Other/unknown	2	3	3	2	11	9	7
Mobility:							
Institutionalized	6	2	2	1	2	3	1
Hospitalized	6	3	2	3	2	1	1
Housebound	6	2	2	2	2	1	1
Ambulatory outside house:							
With help	16	13	10	10	10	4	5
By self	66	77	82	81	83	90	92
Other/unknown	0	0	2	3	2	[1] 0	[1] 0

[1] Other/unknown excluded. Mobility not obtained for most of the year.

Source: Office of Disability, Social Security Administration.

RECENT LEGISLATIVE CHANGES

98TH CONGRESS: THE DISABILITY BENEFITS REFORM ACT OF 1984

Public Law 98–460, the Disability Benefits Reform Act of 1984, made several substantial changes in the standards for review of disability beneficiaries, and in other provisions of the program as well. The following is a summary of the law.

1. Medical improvement standard

Public Law 98–460 established a medical improvement standard under which the Secretary may terminate disability benefits on the basis that the person is no longer disabled only if:

(1) There is substantial evidence demonstrating that (a) there has been any medical improvement in the individual's impairment or combination of impairments (other than medical improvement which is not related to the person's ability to work),

(b) the individual is now able to engage in substantial gainful activity (SGA); or

(2) There is substantial evidence consisting of new medical evidence and a new assessment of RFC which demonstrates that although there is no medical improvement, (a) the person has benefited from advances in medical or vocational therapy or technology related to ability to work, and (b) that he or she is now able to perform SGA; or

(3) There is substantial evidence that although there is no medical improvement (a) the person has benefited from vocational therapy and (b) the beneficiary can now perform SGA; or

(4) There is substantial evidence that, based on new or improved diagnostic techniques or evaluations, the person's impairment or combination of impairments is not as disabling as it was considered to be at the time of the prior determination, and that therefore the individual is able to perform SGA; or

(5) There is substantial evidence either in the file at the original determination or newly obtained showing that the prior determination was in error; or

(6) There is substantial evidence that the original decision was fraudulently obtained; or

(7) If the individual is engaging in SGA (except where he or she is eligible under Section 1619), fails without good cause to cooperate in the review or follow prescribed treatment or cannot be located.

In making the determination, the Secretary was required to consider the evidence in the file as well as any additional information concerning the claimant's current or prior condition secured by the Secretary or provided by the claimant.

Determinations under this provision had to be made on the basis of the weight of the evidence, and on a neutral basis with regard to the individual's condition, without any inference as to the presence or absence of disability based on the previous finding of disability.

Effective date: Applied only with respect to the following categories:

(1) Determinations by the Secretary made after the date of enactment;

(2) Cases pending at any level of the administrative process on the date of enactment;

(3) Cases of individual litigants pending in Federal court on the date the conference report was filed;

(4) Cases of named plaintiffs in class action suits pending on that date;

(5) Cases of unnamed plaintiffs in class action suits certified prior to that date; and

(6) Cases where a request for judicial review was made on a decision of the Secretary made during the 60 days preceding enactment.

Cases in categories (3), (4), (5), and (6) had to be remanded to the Secretary for review under this standard. Individuals in (5) were to be sent a notice via certified mail informing them that they had 120 days after the date of receipt of the notice to request a review under the medical improvement standard.

No class action could be certified after the date the conference report was filed which raised the issue of medical improvement with respect to an individual whose benefits were terminated prior to that date.

Persons whose cases were remanded to the Secretary were to receive benefits pending the Secretary's decision and appeal of that decision if they so elected. If found eligible, any person whose case was remanded under this provision was to receive benefits retroactive to the date they were last found ineligible.

2. Evaluation of pain

The Secretary of HHS was required, in conjunction with the National Academy of Sciences, to conduct a study concerning the questions of using subjective evidence of pain in determining whether a person is under a disability, and the state of the art of preventing, reducing or coping with pain. This study was completed and a report was submitted to the House Committee on Ways and Means and the Senate Committee on Finance in 1986. While making many recommendations, it basically supported the existing treatment of allegations of pain in disability determinations.

The provision also established a statutory standard for considering pain which was in effect until December 31, 1986:

> An individual's statement as to pain or other symptoms shall not alone be conclusive evidence of disability as defined in this section; there must be medical signs and findings, established by medically acceptable clinical or laboratory diagnostic techniques which show the existence of a medical impairment that results from anatomical, physiological or psychological abnormalities which could reasonably be expected to produce the pain or other symptoms alleged and which, when considered with all evidence required to be furnished under this paragraph (including statements of the individual or his physician as to the intensity and persistence of such pain or other symptoms which may reasonably be accepted as consistent with the medical signs and findings), would lead to a conclusion that the individual is under a disability. Objective medical evidence of pain or other symptoms established by medically acceptable clinical or laboratory techniques (for example, deteriorating nerve or muscle tissue), must be considered in reaching a conclusion as to whether the individual is under a disability.

3. Multiple impairments

In determining whether a person's impairment or impairments are of a sufficient medical severity to be the basis of a finding of eligibility for benefits, the Secretary was required to consider the combined effect of all of the person's impairments, whether or not any one impairment would alone be severe enough to qualify the person for benefits. The provision became effective for all determinations made on or after 30 days after enactment.

4. Moratorium on mental impairment reviews

A moratorium was imposed on reviews of all cases of mental impairment disability until the mental impairment criteria in the Listing of Impairments were revised to realistically evaluate the person's ability to engage in SGA in a competitive workplace environment. The moratorium applied to all cases on which an administrative or judicial appeal was pending on or after June 7, 1983. All persons claiming benefits based on mental impairment disability who received an unfavorable initial or continuing disability decision after March 1, 1981 were permitted to reapply for benefits within 12 months of enactment. The revised criteria were published in 1985.

5. Pretermination notice

The Secretary was required to initiate demonstration projects on providing face-to-face interviews for (1) pretermination continuing disability cases and (2) for all initial denial cases, in lieu of face-to-face evidentiary hearings at reconsideration, to be done in at least five States with a report due to the Committees on Ways and Means and Finance on April 1, 1986. The Secretary was also required to notify individuals, upon initiating a periodic eligibility review, that termination of benefits could be the result of the review, and that medical evidence may be provided. Although these studies have been completed, the report has not yet been submitted to Congress.

6. Continuation of benefits during appeal

This provision provided for continuation of benefits during appeal for all continuing disability review cases through the decision of the administrative law judge, at the election of the individual. Where the ALJ's decision is adverse to the individual, these benefits were to be repaid. The provision was made permanent for SSI disability recipients, and applied to DI beneficiaries through December 1987. The 1987 Omnibus Budget Reconciliation Act extended the provision for DI beneficiaries through December 1988, and the 1988 tax technical corrections bill extended the provisions through December 1989.

7. Qualifications of medical professionals

This provision required the Secretary to make every reasonable effort, in cases based on mental impairments, to insure that a qualified psychiatrist or psychologist completes the medical portion of the case review and of the residual functional capacity assessment before any determination is made that an individual is not disabled. The Secretary was given the authority to contract directly for such services if the State agency is unable to do so.

8. Standards for consultative examinations/medical evidence

The Secretary was required to promulgate regulations regarding consultative examinations, including when they should be obtained, the type of referral to be made, and the procedures for monitoring the referral process. Further, the Secretary was required to make every effort to obtain necessary medical evidence from the treating physician before evaluating medical evidence from any other source, and to consider all evidence in the case record and development of complete medical history over at least the preceding 12-month period.

9. Administrative procedure and uniform standards

As required, regulations were published setting forth uniform standards for DI and SSI disability determinations under section 553 of the Administrative Procedure Act, to be binding at all levels of adjudication.

10. Nonacquiescence

While the conference agreement dropped both the House and Senate provisions relating to the Secretary's acquiescence with Court rulings, the intent was not to endorse the practice of "nonacquiescence." The conferees noted that questions had been raised about the constitutional basis of the practice, that many of the conferees had strong concerns about the practice, and that a policy of nonacquiescence should be followed only where steps have been taken or are intended to be taken to receive a review of the disputed issue in the Supreme Court. The conferees also urged the Secretary to seek a resolution of the nonacquiescence issue in the Supreme Court.

In the fall of 1988, SSA published proposed regulations relating to its adherence with circuit court decisions which are in conflict with SSA's policies. Their key provisions are that: (a) SSA would apply a circuit court decision that conflicts with SSA policy, within the circuit and at all levels of administrative adjudication, unless the Government decided to appeal the decision; and (b) SSA would publish in the Federal Register an Acquiescence Ruling explaining how adjudicators should apply the circuit decision. SSA would also publish all other Social Security Rulings in the Federal Register.

11. Payment of costs of rehabilitation services

The provision permitted reimbursement to State agencies for costs of VR services provided to individuals receiving DI benefits under section 225(b) of the Social Security Act who medically recover while in VR, whether or not the person worked at SGA for 9 months, and whether or not the person failed to cooperate in the program.

12. Direction for Quadrennial Social Security Advisory Council

The provision required the next quadrennial advisory council (as required in the Social Security Act) to study the medical and vocational aspects of disability using ad hoc panels of experts where appropriate. The study was to include alternative approaches to work evaluation for SSI recipients, effectiveness of VR programs, and other disability program policies, standards, and procedures. The Council issued its report in March of 1988.

13. Staff attorneys

The Secretary was to report, within 120 days of enactment, to the Committees on Ways and Means and Finance, on the actions taken by the Secretary to establish positions which enable staff attorneys to gain the qualifying experience and quality of experience necessary to compete for ALJ positions. Statement of managers stated that it was assumed, given OPM actions at the time, that statutory requirements for establishing specific positions were not required, and the Secretary was urged to take all reasonable steps to see that the OPM actions resulted in SSA staff attorneys becoming qualified for GS-15 ALJ positions.

14. SSI benefits for persons working despite impairment

This provision extended Sections 1619 (a) and (b) through June 30, 1987, and required the Secretaries of HHS and Education to establish training programs for staff personnel in SSA district offices and State VR agencies, and disseminate information to SSI applicants, recipients, and potentially interested public and private organizations. Sections 1619 (a) and (b) were made permanent in 1986.

15. Frequency of continuing eligibility reviews

The Secretary was required to promulgate regulations establishing standards for determining the frequency of continuing eligibility reviews. Final regulations were to be issued within 6 months and during that period no individual could be subjected to more than one periodic review.

16. Representative payees for Social Security and SSI beneficiaries

The Secretary was required to (1) evaluate qualifications of prospective payees prior to or within 45 days following certification, (2) establish a system of annual accountability monitoring where payments are made to someone other than a parent or spouse living in the same household with the beneficiary, and (3) report to Congress on implementation, and annually on the number of cases of misused funds and disposition of such cases.

LEGISLATIVE CHANGES IN THE 100TH CONGRESS

Public Law 100-203, the Budget Reconciliation Act of 1987

1. *Continuation of benefits during appeal.*—The existing provision for continued payment of disability benefits during the administrative appeal process was extended through 1988.

2. *Lengthening of the extended period of eligibility for disability benefits.*—The extended period of eligibility during which a disability beneficiary who returns to work may become automatically reentitled to benefits, was lengthened from the current 15 months to 36 months. Medicare eligibility is not continued beyond the period provided under current law.

3. *Payment of attorneys' fees.*—The administrative policy which permits ALJ's to authorize attorneys' fees of up to $3,000 without approval by an SSA regional office was reinstated.

Public Law 100-647, the Technical and Miscellaneous Revenue Act of 1988

1. *Continuation of benefits during appeal.*—The existing provision for continued payment of benefits was again extended, through 1989.

2. Interim benefits in cases of delayed final decisions.—Interim benefits will be paid to individuals who have received a favorable decision from an administrative law judge but whose cases are under review by the Appeals Council and the Council has not rendered a decision within 110 days.

Section 3. Social Security Financing

OVERVIEW

This section presents an overview of the financing of the old-age, survivors, and disability insurance (OASDI) trust funds and provides a summary of the short- and long-term projections for the financial solvency of these funds under a variety of demographic and economic assumptions.

CURRENT LAW FINANCING

The Social Security programs (OASDHI) are financed through the payroll tax and from income taxes paid on Social Security benefits. Most of current income to the system goes out directly to meet current benefit obligations. Any funds collected in excess of the amount needed to make benefit payments are credited to the trust funds as reserves, in the form of Government securities. These reserves serve as a cushion against temporary shortfalls in revenues or large increases in outlays due to economic fluctuations; the reserves also provide interest income to the trust funds. As a result of the Social Security Amendments of 1983, OASDI reserves are projected to build rapidly in the next quarter century.

Trust fund income is dependent on the amount of wages covered by Social Security on which taxes are levied according to the payroll tax rate for each year. Benefit outlays are made under a permanent appropriation, equal to the amount to which beneficiaries are entitled based on their earnings records, and are not limited to the amount of revenue credited to the trust fund from contributions and interest. If, as has occurred in the early part of the decade, yearly income is insufficient to cover benefit payments, reserves are used to make up the difference.

The payroll tax is levied on earnings in employment covered by social security, with portions of the total tax rate allocated by law to each of the three trust funds (OASI, DI and HI). All persons who work in covered employment pay this mandatory tax on their earnings up to a maximum dollar amount (known as the contribution and benefit base, or earnings base). Employers pay an equal tax rate for these workers. Beginning in 1984, self-employed workers pay social security taxes that are equivalent to the combined employer-employee rate and receive a partial credit against that tax through 1989. The self-employment credit expires at the end of 1989, but beginning in 1990, self-employment taxes will be computed on a lower base and half of the tax will be deductible for income tax purposes. Under current law, as of January 1989, the tax paid by both the employer and employee is 7.51 percent of the first $48,000 of earnings (self-employed persons pay 13.02 percent). Another increase in the tax rates will become effective in 1990 (7.65

percent each for employers and employees). Increases in the earnings base are automatic, based on the increase in average wages in the economy (excluding self-employment earnings) each year.[1] Table 1 summarizes the payroll tax schedule both historically and under the provisions of current law.

TABLE 1.—SELECTED PAYROLL TAX RATE AND WAGE BASE LEVELS, HISTORICALLY AND UNDER CURRENT LAW

	Wage base	Contribution rate (percent) employer/employee each			
		Total	OASI	DI	HI
1937	$3,000	1.0	1.0	...	...
1950	3,000	1.5	1.5	...	...
1955	4,200	2.0	2.0	...	...
1959	4,800	2.5	2.25	0.25	...
1966	6,600	4.2	3.5	.35	0.35
1970	7,800	4.8	3.65	.55	.60
1974	13,200	5.85	4.375	.575	.90
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1981	29,700	6.65	4.70	.65	1.30
1982	32,400	6.70	4.575	.825	1.30
1984	37,800	[1] 7.00	5.20	.50	1.30
1985	39,600	7.05	5.20	.50	1.35
1986	42,000	7.15	5.20	.50	1.45
1987	43,800	7.15	5.20	.50	1.45
1988	45,000	7.51	5.53	.53	1.45
1989	48,000	7.51	5.53	.53	1.45
1990–99	([2])	7.65	5.60	.60	1.45
2000 and after	([2])	7.65	5.49	.71	1.45

[1] A tax credit of 0.3 percent of taxable wages was allowed in 1984 against the tax paid by employees, so that the effective employee withholding rate was 6.7 percent.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 2.A1.

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[1] Increases in the earnings base are triggered whenever cost-of-living adjustments are granted to Social Security beneficiaries and are effective on a calendar year basis.

TABLE 2.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, BY INDIVIDUAL AND COMBINED TRUST FUNDS, 1980 AND AFTER

Calendar year	OASI	DI	OASDI combined	HI	OASDHI combined
1980	6.2725	.7775	7.05	1.05	8.10
1981	7.0250	.9750	8.00	1.30	9.30
1982	6.8125	1.2375	8.05	1.30	9.35
1983	7.1125	.9375	8.05	1.30	9.35
1984	10.4000	1.0000	11.40	2.60	[1] 14.00
1985	10.4000	1.0000	11.40	2.70	[1] 14.10
1986–87	10.4000	1.0000	11.40	2.90	[1] 14.30
1988–89	11.0600	1.0600	12.12	2.90	[1] 15.02
1990–99	11.2000	1.2000	12.40	2.90	15.30
2000 and after	10.9800	1.4200	12.40	2.90	15.30

[1] Excludes tax credits, which equalled 2.7 percent in 1984, 2.3 percent in 1985, and 2.0 percent for the years 1986 through 1989.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988.

In 1940, approximately 24 million persons worked in employment covered by the social security system. Over the years, major categories of workers were brought under the system, such as State and local government employees (on a voluntary basis), regularly employed farm and domestic workers, members of the armed services, and self-employed professionals such as physicians and lawyers. In 1982, over 116 million workers and 95 percent of all jobs in the United States were covered under social security. The present-law social security earnings base, as revised by the 1977 Amendments and updated automatically according to wage increases in the economy, results in about 90 percent of all covered earnings being taxable.

While coverage is compulsory for most types of employment, approximately 8 million jobs were exempt from coverage under social security prior to 1984. The majority of these noncovered positions were and still are in the Federal Government and in State and local governments. Beginning January 1, 1983, Federal employees were covered under the Medicare portion of the Social Security tax, and as of January 1, 1984, all new Federal employees are covered under the OASDI portion as well. About 70 percent of State and local government jobs (10 million out of 14.6 million jobs), were covered by Social Security as of 1984. Beginning January 1, 1984, all employees of nonprofit organizations became covered, and terminations of Social Security coverage by State government entities were no longer allowed.[2] As of April 1, 1986, all newly hired State and local employees are mandatorily covered under the Medicare program and must pay HI payroll taxes. Table 4 shows State-by-State data on State and local government jobs covered in 1984.

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[2] Terminations were prohibited as of April 1983.

TABLE 3.—SOCIAL SECURITY COVERAGE, 1985

[In millions]

Occupational group	Number of employees	Covered [1]	
		Number	Percent
Specifically exempt from OASI coverage:			
Federal Civilian employees [2]	3.8	1.1	28.9
Voluntary coverage:			
State and local government	14.8	10.7	72.3
Mandatorily covered:			
Industry and commerce	84.6	84.4	99.8
Nonprofit [3]	7.1	7.0	98.6
Farm [3]	1.7	1.1	64.7
Domestic [3]	1.4	.5	35.7
Self-employed [3]	9.2	7.0	76.0

[1] Data on covered employment are estimated based upon class of worker of major job in which employed over the year 1985. The figures do not reflect turnover in jobs during the year.

[2] Federal employees who are temporary or who work for quasi-Federal agencies such as TVA are covered. The 1983 Social Security Amendments covered Federal employees hired after 1983, as well as all nonprofit employees, current and future.

[3] Mandatorily covered if special minimum coverage requirements met. Special minimum requirements for coverage generally relate to amount of wages earned—for example, domestic employees must receive at least $50 from one employer during a calendar quarter for those wages to be covered.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT AS THEIR MAJOR JOB IN 1984 [1]

[Numbers in thousands]

State	All workers	Covered workers	Percent covered
Total	14,531	9,985	69
Alabama	245	218	89
Alaska	58	18	31
Arizona	182	161	89
Arkansas	145	127	87
California	1,563	572	37
Colorado	197	47	24
Connecticut	170	107	63
Delaware	41	27	66
Florida	597	470	79
Georgia	351	287	82
Hawaii	72	48	67
Idaho	64	64	100
Illinois	626	327	52
Indiana	320	266	83
Iowa	199	194	98

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT AS THEIR MAJOR JOB IN 1984 [1]—Continued

[Numbers in thousands]

State	All workers	Covered workers	Percent covered
Kansas	167	165	99
Kentucky	210	154	73
Louisiana	320	49	15
Maine	74	22	29
Maryland	288	259	90
Massachusetts	334	0	0
Michigan	534	515	96
Minnesota	291	195	67
Mississippi	156	154	99
Missouri	286	224	78
Montana	64	59	91
Nebraska	118	116	98
Nevada	52	3	6
New Hampshire	55	49	90
New Jersey	475	445	94
New Mexico	120	87	73
New York	1,278	1,122	88
North Carolina	394	351	89
North Dakota	55	49	90
Ohio	595	0	0
Oklahoma	223	190	85
Oregon	184	170	93
Pennsylvania	590	554	94
Rhode Island	58	33	57
South Carolina	208	202	97
South Dakota	52	50	95
Tennessee	248	219	88
Texas	971	485	50
Utah	102	101	99
Vermont	35	34	98
Virginia	391	319	82
Washington	285	249	87
West Virginia	128	121	94
Wisconsin	309	261	84
Wyoming	51	46	90

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[1] Major job is determined by type of employment of longest job (all workers) and of job with largest amount of covered wages (covered workers).

Source: Office of Research and Statistics, Social Security Administration.

Current Short-Range Status of the Trust Funds

An assessment of the short-range status of the trust funds depends heavily on the economic assumptions underlying the estimates because both the revenues and expenditures of the program are tremendously affected by general economic trends such as unemployment, wage growth, and inflation. Tables 5 and 6 present short-term projections of the financial status of the trust funds under the assumptions contained in the President's fiscal year 1990 budget and the Congressional Budget Office baseline, respectively.

TABLE 5.—CURRENT LAW PROJECTIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUND OUTLAYS, INCOMES, AND BALANCES ON THE BASIS OF THE PRESIDENT'S FISCAL YEAR 1990 BUDGET ASSUMPTIONS

[By fiscal year, in billions of dollars]

	Fiscal year—						
	1988	1989	1990	1991	1992	1993	1994
Old-age and survivors insurance:							
Total outlays	197.0	209.3	222.5	236.8	249.9	262.1	273.2
Income [1]	235.7	263.5	286.3	310.6	333.3	358.1	380.3
Year-end balance	97.0	151.1	214.9	288.7	372.1	468.2	575.2
Start-of-year balance as percent of outlays [2]	37	54	76	99	124	150	180
Disability insurance:							
Total outlays	22.3	23.2	24.4	25.8	27.4	29.1	30.8
Income [1]	22.4	24.8	29.0	32.3	34.6	37.2	39.5
Year-end balance	7.3	8.9	13.5	20.0	27.2	35.3	44.0
Start-of-year balance as percent of outlays [2]	39	38	43	60	81	102	123
Combined OASI and DI:							
Total outlays	219.3	232.5	246.9	262.6	277.3	291.1	304.0
Income [1]	258.1	288.3	315.3	343.0	367.9	395.3	419.7
Year-end balance	104.2	160.0	228.3	308.7	399.4	503.5	619.3
Start-of-year balance as percent of outlays	37	53	72	95	119	145	174

[1] Income to the trust funds is budget authority, and includes payroll tax receipts, interest on investments, and certain general fund transfers.

[2] Start-of-year balances for OASI and DI are computed as the balances at the end of the previous year plus the advanced tax transfers at the beginning of the year.

Source: Social Security Administration, Office of the Actuary estimates based on President's fiscal year 1990 economic assumptions.

TABLE 6.—CURRENT LAW PROJECTIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUND OUTLAYS, INCOMES, AND BALANCES UNDER CBO'S REVISED BASELINE SET OF ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

	Fiscal year—						
	1988	1989	1990	1991	1992	1993	1994
Old-age and survivors insurance:							
Total outlays	197.9	210.1	225.0	240.8	256.4	272.4	289.0
Income[1]	236.6	265.0	288.9	314.1	340.5	368.7	398.7
Year-end balance	97.0	151.8	215.7	289.0	373.1	469.4	579.1
Start-of-year balance (as percent of outlays)[2]	41	54	76	98	121	148	173
Disability Insurance:							
Total outlays	22.4	23.6	25.3	27.0	28.9	30.8	32.8
Income[1]	22.5	25.0	29.2	32.3	34.9	37.6	40.5
Year-end balance	7.3	8.6	12.5	17.8	23.8	30.6	38.3
Start-of-year balance (as percent of outlays)[2]	39	38	41	55	70	86	102
Combined OASI and DI:							
Total outlays	220.3	233.7	250.3	267.8	285.3	303.2	321.8
Income[1]	259.1	289.9	318.1	346.4	375.4	406.3	439.2
Year-end balance	104.2	160.4	228.2	306.8	396.9	500.0	617.4
Start-of-year balance (as percent of outlays)[2]	41	53	72	93	116	142	166

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[1] Income to the trust funds is budget authority, and includes payroll tax receipts, interest on investments, and certain general fund transfers.

[2] Start-of-year balances are computed as the balances at the end of the previous year plus the advanced tax transfers at the beginning of the year.

Source: Congressional Budget Office estimates based on revised baseline, February 1989.

Status of OASDI trust fund

Under the President's budget as well as CBO baseline assumptions, the combined OASDI trust funds will continue the growth begun in 1984 throughout the 5-year projection period incorporated in the President's and CBO's forecasts. The growth is projected to accelerate during 1990 due to the increase in the OASDI portion of the FICA tax rates. Yearly increases in the OASDI trust fund balances (i.e., excess of revenues over benefit outlays) will continue to increase, reaching almost $100 billion per year by 1993. Throughout the 1990's, and for some period into the next century, the favorable demographic pattern of a large baby-boom generation at peak earning years combined with the retirement of the relatively small generation born during the depression should insure large trust fund reserves.

For the combined OASDI funds, under the President's budget assumptions, the trust fund reserve ratio is estimated to increase from 37 percent at the beginning of 1988 to 53 percent for 1989, and then increase each year thereafter, reaching 174 percent by 1994. A similar pattern of increase is shown under the CBO baseline assumptions. This increase includes, in the balance at the beginning of each fiscal year, the tax receipts for October which are to be transferred on the first day of the month under the provision for advance transfer of taxes to the trust funds.

Budgetary treatment of OASDI trust funds

The Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177), which incorporated the original Gramm-Rudman-Hollings deficit-reduction procedures, contains specific provisions setting forth the budgetary treatment of the OASDI trust funds. The act required that the OASDI trust funds be taken off-budget beginning in fiscal year 1986. (The 1983 Social Security Amendments had previously required that the funds be taken off budget in fiscal year 1993.) However, the act also required that the income and outgo of the OASDI trust funds be taken into account in determining if Federal spending must be cut to meet the Gramm-Rudman-Hollings deficit-reduction goals. In effect, the budget was to remain "unified" for deficit-reduction purposes. This meant that the OASDI trust funds would be counted in the budget figures throughout the period in which Gramm-Rudman-Hollings was in force. This period was extended for 2 years—from fiscal year 1991 to fiscal year 1993—by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (P.L. 100–119). Thus, under current law the OASDI trust funds are to be counted in the Federal budget for deficit-reduction purposes through fiscal year 1993.

Other provisions of the balanced budget act exempt OASDI benefits from automatic reductions, or so-called sequestration. Thus, while OASDI income and outgo are counted to determine the size of the Federal deficit, OASDI benefits are not subject to automatic reduction if the deficit is too high.[3] The act further includes provisions making it "out of order" for either the House or Senate to take up changes in OASDI as part of a budget reconciliation measure. Separate votes in each body—suspending or otherwise altering the rules under which the respective bodies operate—would be required to make consideration of any proposed OASDI change permissible. In the Senate, this would require approval by three-fifths of its members.

The impact of OASDI surpluses on the Federal budget deficits

OASDI tax receipts are expected to exceed benefits and other expenses continuously over the budget forecast period, i.e., the next 5 years. Barring a major recession, the excess receipts should grow substantially. What this means is that, with all other things held constant, surplus OASDI receipts would offset a substantial portion of the deficits the Government incurs with respect to its other activities. CBO's baseline budget projections show that if OASDI were not counted, the so-called on-budget deficits would be higher—by amounts ranging from $56 billion in fiscal year 1989 to $103 billion in fiscal year 1993 (table 7). When the Gramm-Rudman-Hollings law ends in 1994, the on-budget deficit will rise abruptly by $112 billion in a single year (from $135 billion in fiscal year 1993 to $247 billion in fiscal year 1994), while the implicit unified defict would have fallen by $5 billion (from $135 billion in fiscal year 1993 to $130 billion in fiscal year 1994).

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[3] However, administrative expenses of the Social Security Administration are subject to sequestration.

TABLE 7.—PROJECTED FEDERAL BUDGET DEFICITS, INCLUDING AND EXCLUDING OASDI TRUST FUNDS IN THE CALCULATION

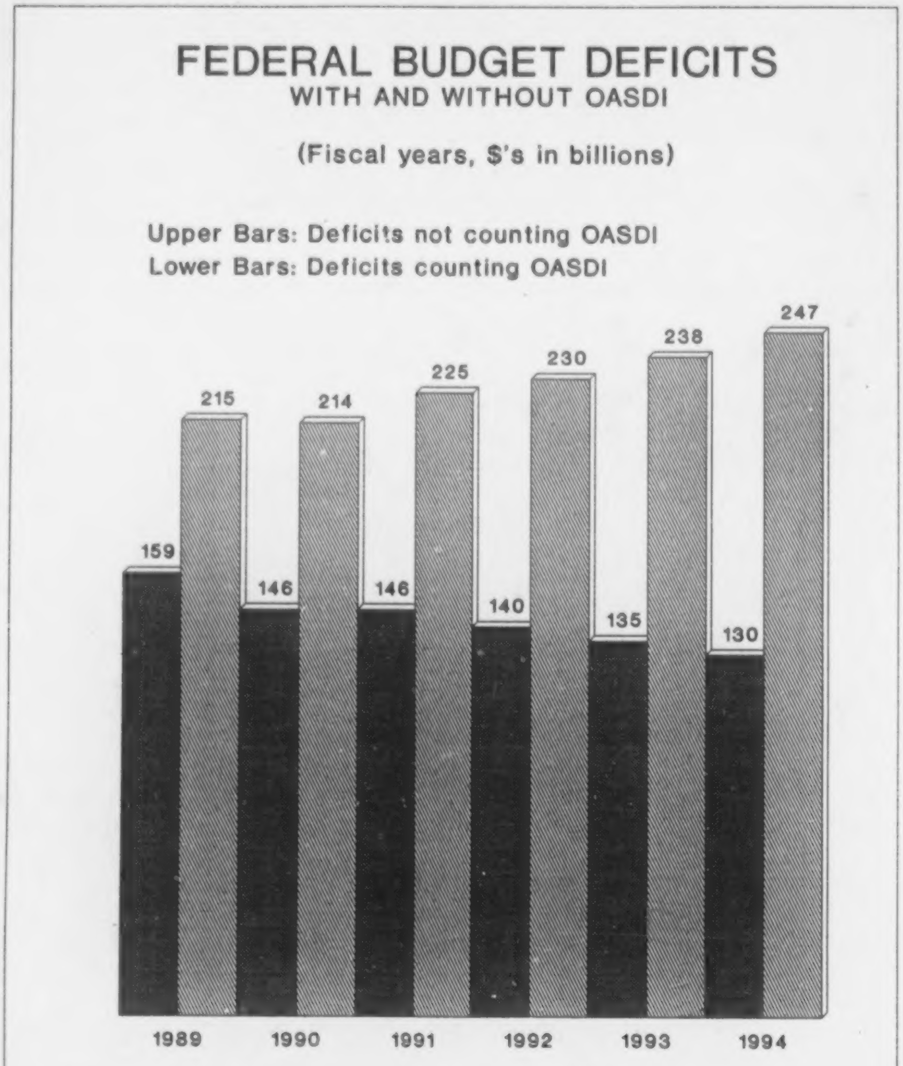
[In billions of dollars]

Fiscal year	Gramm-Rudman-Hollings deficit targets	Projected budget deficits under: Unified budget (including OASDI)	Projected budget deficits under: De-unified budget (excluding OASDI)	Increase from excluding OASDI
1989	136	159	215	56
1990	100	146	214	68
1991	64	146	225	79
1992	28	140	230	90
1993	0	135	238	103
1994	[1] None	130	247	117

[1] Gramm-Rudman-Hollings deficit reduction targets are established only through fiscal year 1993. Technically, a unified budget presentation will no longer be required after fiscal year 1993.

Source: CBO baseline projections; Feb. 1, 1989.

CHART 1



Source: CBO Baseline Projections, February 1989

THE IMPACT OF THE OASDI SURPLUSES ON BUDGET POLICY DECISIONS

As attention is increasingly drawn to the surplus OASDI receipts, questions have emerged about the appropriateness of counting the operations of the OASDI trust funds in the budget. The basic concern is that the money is "masking" deficit spending elsewhere in the Government. The underlying criticism is that the money was intended to be invested in the OASDI trust funds, to be set aside for future years, and not to be used to finance other Government spending today. However, the issue is a complex one and is often confusing and poorly described.

Part of the confusion arises from a lack of understanding that OASDI taxes are not deposited in trust funds and OASDI benefits are not paid from trust funds. OASDI taxes are deposited in the Federal Treasury like other taxes and become part of the general pool of funds through which the Government functions. Airport and highway taxes, civil service retirement contributions, Medicare receipts, and many other forms of dedicated Federal revenues—*all of which have corresponding trust funds*—are treated likewise. The trust funds themselves receive credit for the revenues when the Government receives them, usually in the form of postings of nonmarketable Federal securities. Conversely, when the Government makes expenditures for trust fund programs, the money is paid from the treasury, and the securities posted to the trust funds are reduced by a corresponding amount. Simply stated, the OASDI trust funds are given IOUs when OASDI taxes are received by the treasury, and those IOUs are taken back when the treasury makes expenditures on the program's behalf. This handling of OASDI's finances goes back to the inception of the program and has not been altered by the inclusion or exclusion of the OASDI trust funds in or from the Federal budget.

In effect, whether or not OASDI is counted as part of the Federal budget, OASDI taxes will continue to be deposited in the Federal treasury and the trust funds will continue to receive credit for them as they are collected. Moreover, this credit will continue to give the Treasury Department "authority," or what might be described as a "permanent appropriation," to spend for OASDI.[4]

The more fundamental issue raised by including or excluding OASDI in or from the budget totals revolves around perceptions of how OASDI's budget treatment will influence Congress and the administration in making future fiscal policy decisions for the Government as a whole. Since surplus OASDI taxes are deposited in the Federal treasury, there is no way of knowing their ultimate use. In the course of fiscal policymaking, three basic uses can be made of the money: (1) It can be spent on other programs; (2) it can cause other taxes to be lower than they otherwise would be; or (3) it can cause Government borrowing from financial markets to be lower.[5]

It is sometimes stated, ipso facto, that surplus OASDI taxes cause the Government to borrow less from financial markets. However, this perspective represents an oversimplification. The law has always dictated that the OASDI trust funds be credited with Federal securities to reflect OASDI tax receipts, but it has never dictated how the surplus receipts themselves are to be used by the Federal Government. The outcome—*what happens to the money*—basically depends on what one assumes fiscal policymakers would decide about spending and taxation for the Government overall if the surplus OASDI taxes were not levied. If levying them influences Congress to avoid cutting spending elsewhere or raising other taxes, Government borrowing from financial markets is not being reduced.

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[4] Meaning that as long as there are securities posted to the OASDI trust funds, the Treasury Department can continue to make OASDI expenditures.

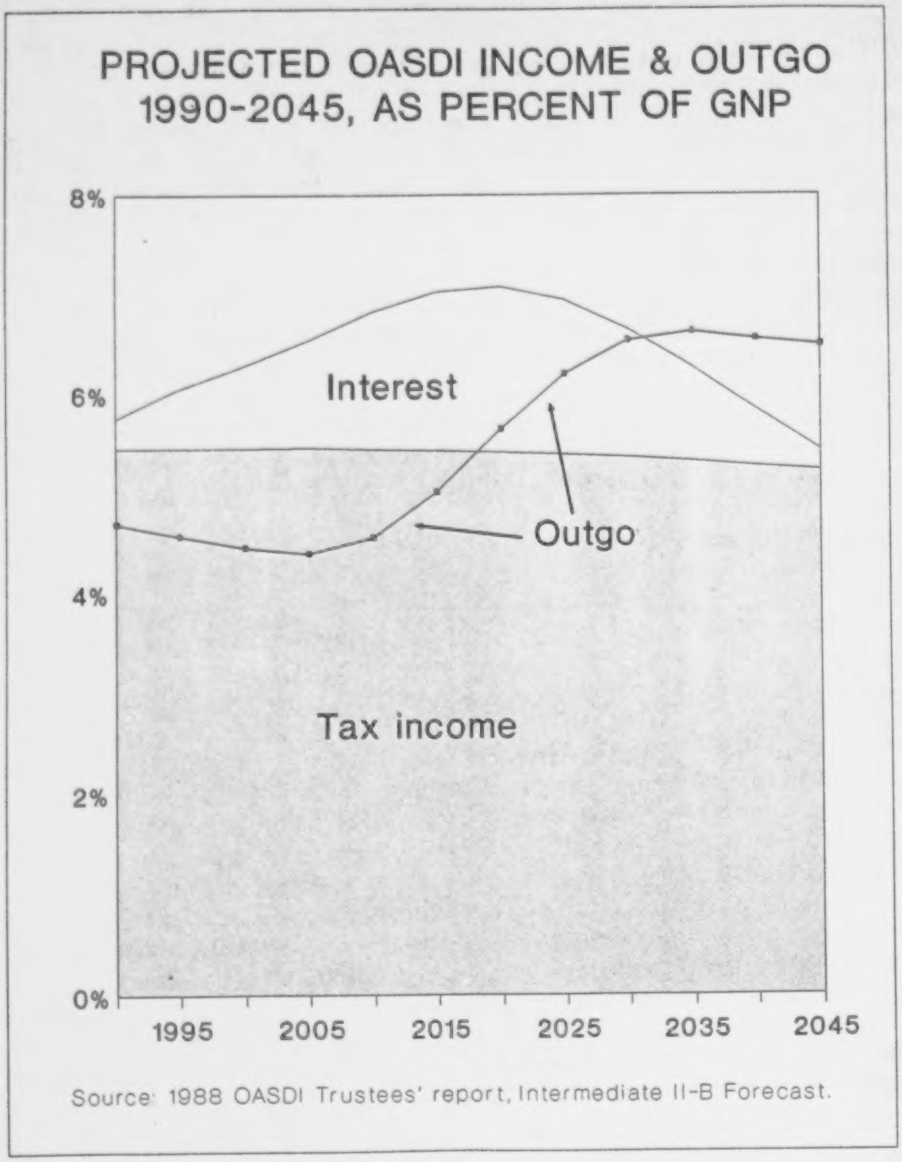
[5] While the Government is said to "borrow" these surplus receipts, technically, it is crediting one of its accounts and debiting another—i.e., borrowing money from itself.

The Government has the potential to increase savings in the economy by reducing the amount of borrowing it does in financial markets. However, this outcome depends on its ability to reduce the difference between its overall income and outgo. It is the Government's net deficit overall that determines how much is really being borrowed from financial markets, not a surplus arising in one of its accounts. Removing OASDI out of the budget will not save the money unless the Government's decisions about overall spending and taxation are changed as a result. The basic question with OASDI's budget treatment is whether removal of the program from the budget would cause fiscal policymakers to take greater action to reduce Government borrowing from financial markets—by cutting spending and/or raising receipts by greater amounts than they otherwise would. Or, alternatively, removal of OASDI from the budget could be a catalyst for removing many other programs from the budget, thereby reducing the sphere of options for making budget savings.

The long-range impact of the OASDI surpluses

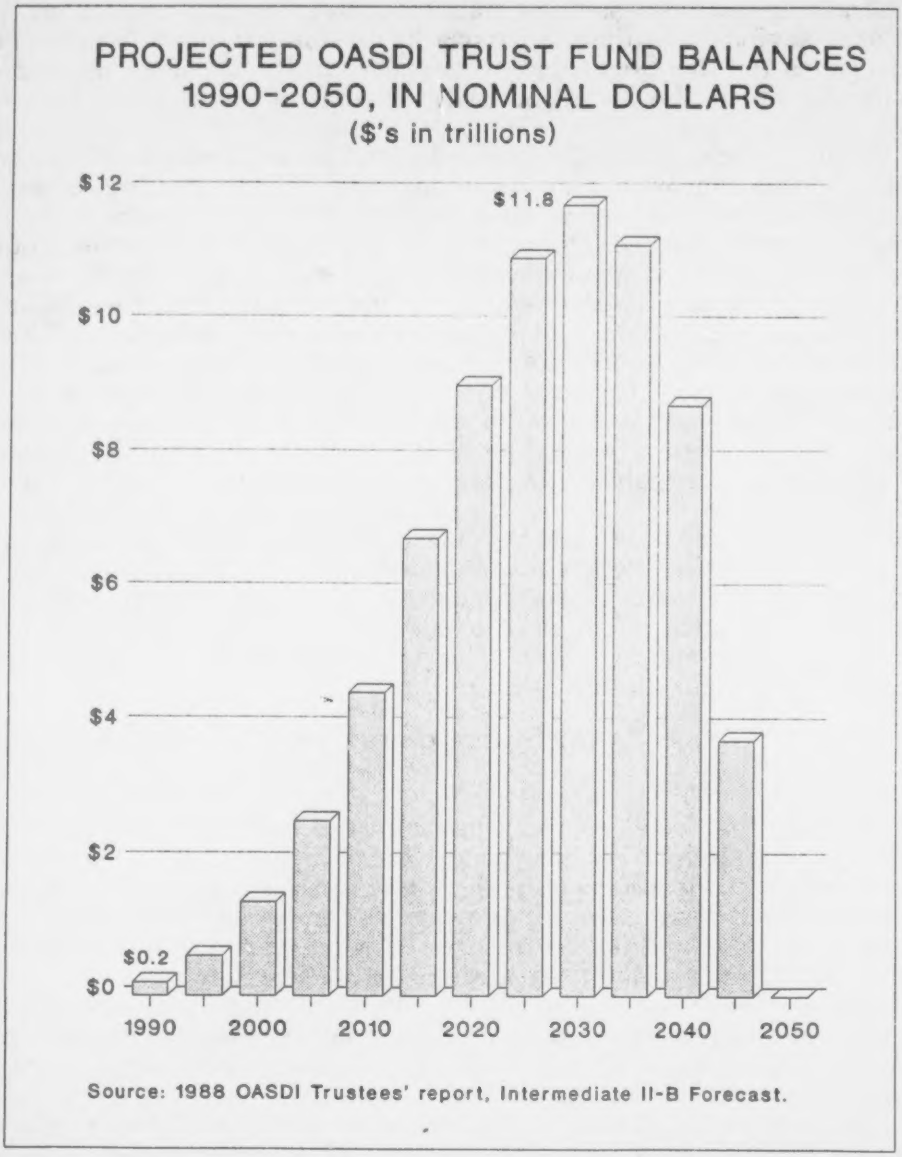
In their 1988 report, the Social Security trustees projected that surplus OASDI taxes would continue until the early years of the post-World War II baby-boom generation's retirement—i.e., until 2015–20. After that, OASDI taxes would fall short of expenditures indefinitely. The program then would have to draw on the IOUs accumulated in its trust funds, and the Government would have to make good on them. In essence, beginning sometime around 2015–20, the Government would no longer have the benefit of surplus OASDI taxes and, in fact, would have to find other resources to cover the trust funds' IOUs. How these resources will be obtained poses a major long-range fiscal policy question. Although the OASDI trust funds would have grown substantially—reaching $2.5 trillion in 2020 as measured in constant 1988 dollars—and would continue to provide authority for the Treasury Department to keep spending for the program until almost the middle of the next century, the trust funds themselves will not provide the resources to pay the benefits. They simply give the Social Security system a claim on other Government resources. What this means in practice is that when the trust funds' IOUs are needed because OASDI tax receipts fall below expenditures, the Government will have to raise other taxes, curtail other expenditures, or increase its borrowing from the public.

CHART 2



Source: 1988 OASDI Trustees' report, Intermediate II-B Forecast.

CHART 3



Source: 1988 OASDI Trustees' report, Intermediate II-B Forecast.

Economists argue that if the surplus OASDI taxes arising over the next few decades were to result in a reduction in Government borrowing from the public, more money would exist in investment markets, which could lead to greater economic growth. If this were to occur, extracting resources from the economy in the future to honor the OASDI claims would not necessarily be burdensome. Said another way, if one accepts the premise that reductions in the unified budget deficit today will lead to economic growth by increasing the amount of resources available for investment, then surplus OASDI taxes today could aid in building a higher economic base in the future from which to draw the resources to pay future OASDI benefits. However, greater economic growth is achieved by increasing national savings, and the Government's impact on national savings is influenced more by the outcomes of fiscal policy decisions for the Government overall than by decisions made specifically about the Social Security system and how to account for its surplus taxes.

Even if fiscal policy decisions do lead to enhanced savings, and the Nation's growth rate is augmented in the coming decades, OASDI costs would grow automatically with the economy. In essence, larger OASDI claims would accompany greater economic growth (since that growth would manifest itself in higher wages and entitlement to larger benefits). Further, the post-World War II baby-boom generation and future retirees will raise financial demands across the board, not just for OASDI, as the ratio of workers to retirees falls in the next century. The goods and services to be consumed by society cannot be stockpiled in advance, and the economy will have to adjust. Whether this would be a mild or severe adjustment is largely conjecture, but the manner in which retirement claims are accumulated (publicly or privately) does not necessarily determine it. It may revolve just as much on how the future elderly feel about retiring versus working. No matter how much nominal wealth can be cashed in to produce given levels of retirement income, the amount of goods and services that can be furnished will depend heavily on the proportion of the population able and willing to do the furnishing.

Long Range Status of the Trust Funds

OASDI trust funds

Because the Social Security program has been designed as a contributory system in which those who pay the taxes supporting it are considered to be earning the right to future benefits, Congress has traditionally required long-range estimates of the program's actuarial balance and has set future tax rates with a view to assuring that the income of the program will be sufficient to cover its outgo. Under current procedures, the long-range actuarial analysis of the cash benefits program covers a 75-year period—this would generally be long enough to cover the anticipated retirement years of those currently in the work force.

The long-range status of the Social Security trust funds is ordinarily expressed in terms of "percent of taxable payroll" rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of "1 percent of taxable payroll," this means that the Social Security tax rates now in the law would have to be increased by 0.5 percent points for employee and employer, each, in order to pay for the benefits due under present law. (Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions.) If the program is projected to have a deficit of 1.5 percent of taxable payroll and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 15 percent (1.5 divided by 10) of expenditures could not be met with that tax schedule. In 1988, the total taxable payroll amounted to approximately $2.1 trillion so that in 1988 terms, 1.5 percent of payroll represented about $31 billion.

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance, in absolute terms and as a percentage of the annual expenditures, and whether the balance is growing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total income rate and the total cost rate.

Beginning with the 1988 trustees report, the Social Security trustees used an alternative method of determining actuarial balance. Under the "level-financing" method, interest earnings on the fund are more fully recognized. Calculations were based on the present value of future income, outgo and taxable payroll by discounting the future annual amounts at an assumed rate of interest.

If the income rate is between 95 and 105 percent of the cost rate, over the 75-year long-range projection period, the system is said to be in close actuarial balance. This definition can be used under either method of calculating actuarial balance.

The long-range financial condition of the Social Security programs will be determined by three types of long-range factors: demographic factors such as rates of fertility, life expectancy, and labor force participation which determine how many workers there will be in the society in relation to nonworking beneficiaries; economic factors such as unemployment, productivity, and inflation; and Social Security program factors, such as benefit levels, total number of covered workers, and percent of eligible workers drawing early retirement benefits.

In projecting the long-term condition of the OASDI trust funds, the actuaries at the Social Security Administration employ four sets of alternative economic and demographic assumptions. Alternative I is based on optimistic assumptions, alternatives II–A and II–B on moderate assumptions, and alternative III on pessimistic assumptions. In general, alternative II–B is considered the most balanced estimate of long-term solvency.

It is clear that these factors cannot be predicted with any certainty as far into the future as 75 years, and the long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

Table 8 shows a comparison of the estimated cost rate with the estimated income rate for selected years from 1988 through 2065. The income rate is the sum of the scheduled tax rate and the income from taxation of benefits expressed as a percentage of taxable payroll. On the basis of the 1988 alternative II–B assumptions, estimated income will exceed the estimated cost of the program through the second decade of the next century. After the year 2018, income from scheduled payroll taxes and from the taxation of benefits will not be large enough to cover estimated annual costs, although the accumulated trust fund balance is projected to be sufficient to allow the program to continue operating satisfactorily for many years. The average actuarial balances are estimated to be a surplus of 2.15 percent of taxable payroll for the first 25 years of the long-range projection period and a deficit of 1.45 percent for the second 25 years. The surplus is offset by an estimated deficit of 3.32 percent of taxable payroll in the third 25-year period of the 75-year projection period.

Table 9 shows the estimates of OASI and DI trust fund ratios for each year from 1981 through 2060. As a percent of annual expenditures, the combined assets of the OASI and DI trust funds are estimated to grow until the latter part of the second decade in the next century, reaching levels of about 531 percent of annual expenditures in 2015. Thereafter, the combined trust fund ratios decline steadily to just over 50 percent by 2046.

The trust fund ratio for OASI exhibits a similar pattern—increasing to about 587 percent in the second decade of the next century and declining thereafter to 57 percent by 2048. The DI trust fund increases to about 225 percent of annual expenditures by the first decade of the next century and declines to exhaustion by the year 2027.

Table 10 shows the income rates for the OASI and DI trust funds from two sources: (1) taxable payroll and (2) taxation of benefits. Table 11 shows sources of income to the OASI and DI trust funds expressed in billions of dollars and as a percentage of total income to the trust funds.

TABLE 8.—ESTIMATED LONG-RANGE OASDI ANNUAL INCOME RATE, COST RATE, AND ACTUARIAL BALANCE UNDER THE PROGRAM BASED ON ALTERNATIVE II–B OF THE 1988 TRUSTEES' REPORTS

[Percent of taxable payroll]

Year	Income rate [1]			Cost rate			Balance [2]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1988	11.22	1.07	12.29	9.65	1.08	10.73	+1.57	−0.01	+1.56
1989	11.23	1.07	12.30	9.65	1.08	10.72	+1.59	−.01	+1.58
1990	11.39	1.21	12.60	9.74	1.07	10.81	+1.65	+.14	+1.79
1991	11.40	1.21	12.61	9.73	1.07	10.80	+1.67	+.15	+1.81
1992	11.40	1.21	12.62	9.68	1.06	10.75	+1.72	+.15	+1.87
1993	11.41	1.21	12.62	9.62	1.06	10.68	+1.79	+.15	+1.94
1994	11.40	1.21	12.62	9.54	1.07	10.61	+1.86	+.15	+2.01
1995	11.40	1.21	12.62	9.47	1.07	10.55	+1.93	+.14	+2.07
1996	11.40	1.21	12.62	9.40	1.09	10.48	+2.01	+.13	+2.13
1997	11.40	1.21	12.62	9.33	1.10	10.43	+2.07	+.11	+2.19
1998	11.42	1.21	12.64	9.27	1.12	10.39	+2.15	+.10	+2.25
1999	11.44	1.22	12.65	9.20	1.14	10.34	+2.24	+.08	+2.31
2000	11.24	1.44	12.67	9.14	1.16	10.30	+2.09	+.28	+2.37
2001	11.25	1.44	12.69	9.08	1.18	10.26	+2.17	+.26	+2.43
2002	11.26	1.44	12.70	9.02	1.20	10.22	+2.24	+.24	+2.48
2003	11.28	1.44	12.72	8.97	1.23	10.21	+2.30	+.21	+2.51
2004	11.29	1.44	12.73	8.94	1.27	10.20	+2.36	+.18	+2.53
2005	11.30	1.44	12.75	8.91	1.31	10.22	+2.39	+.14	+2.53
2006	11.32	1.44	12.76	8.91	1.35	10.25	+2.41	+.10	+2.51
2007	11.33	1.45	12.78	8.92	1.39	10.31	+2.41	+.06	+2.47
2008	11.34	1.45	12.79	8.96	1.43	10.39	+2.37	+.02	+2.39
2009	11.35	1.45	12.79	9.05	1.47	10.52	+2.29	−.02	+2.28
2010	11.36	1.45	12.81	9.18	1.49	10.67	+2.17	−.04	+2.13
2011	11.37	1.45	12.82	9.34	1.52	10.86	+2.02	−.07	+1.96
2012	11.38	1.45	12.83	9.53	1.55	11.08	+1.85	−.10	+1.75
2015	11.42	1.45	12.88	10.26	1.60	11.86	+1.16	−.15	+1.02
2020	11.51	1.46	12.97	11.81	1.66	13.47	−.30	−.21	−.51
2025	11.59	1.46	13.04	13.18	1.76	14.93	−1.59	−.30	−1.89
2030	11.64	1.46	13.10	14.14	1.74	15.88	−2.50	−.28	−2.78
2035	11.67	1.46	13.13	14.54	1.71	16.25	−2.87	−.25	−3.12
2040	11.67	1.46	13.13	14.52	1.71	16.23	−2.84	−.25	−3.10
2045	11.68	1.46	13.14	14.47	1.78	16.25	−2.79	−.31	−3.11
2050	11.69	1.46	13.15	14.63	1.80	16.43	−2.94	−.34	−3.28
2055	11.70	1.46	13.16	14.86	1.80	16.66	−3.16	−.34	−3.50
2060	11.71	1.46	13.17	15.02	1.78	16.80	−3.31	−.32	−3.62
2065	11.72	1.46	13.18	15.07	1.78	16.85	−3.36	−.32	−3.68
"Average-cost" basis: [3]									
25-year averages:									
1988–2012	11.34	1.32	12.67	9.29	1.22	10.51	+2.05	+.10	+2.15
2013–2037	11.57	1.46	13.02	12.78	1.69	14.47	−1.21	−.24	−1.45
2038–2062	11.69	1.46	13.15	14.70	1.77	16.47	−3.01	−.31	−3.32
75-year average:									
1988–2062	11.53	1.41	12.95	12.26	1.56	13.82	−.72	−.15	−.87
"Level-financing" basis: [4]									
25 years: 1988–2012	11.46	9.33	2.13	1.33	1.22	.11	12.78	10.54	2.24
50 years: 1988–2037	11.49	10.90	.59	1.38	1.44	−.05	12.87	12.34	.53
75 years: 1988–2062	11.53	11.98	−.45	1.40	1.53	−.13	12.94	13.52	−.58

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[1] The income rate is the sum of the combined employer-employee contribution rate and the income from the Federal income taxation of benefits.

[2] A positive balance indicates a surplus; a negative balance indicates a deficit.

[3] Income rates do not include beginning trust fund balances.

[4] Income rates include beginning trust fund balances.

Source: Office of the Actuary, Social Security Administration; and 1988 OASDI Trustees' report.

TABLE 9.—ESTIMATED LONG-RANGE OASI AND DI TRUST FUND RATIOS

[In percent]

Year	OASI	DI	OASDI
1981	18	21	18
1982	15	17	15
1983	15	14	14
1984	20	35	21
1985	24	27	24
1986	28	38	29
1987	30	44	31
1988	41	38	41
1989	58	38	56
1990	75	39	71
1991	93	53	89
1992	112	67	107
1993	132	81	127
1994	153	96	147
1995	176	110	169
1996	199	122	191
1997	223	132	214
1998	248	141	237
1999	275	148	261
2000	301	154	285
2001	327	174	309
2002	353	191	334
2003	378	205	357
2004	404	215	381
2005	431	221	404
2006	457	225	427
2007	484	225	449
2008	508	222	469
2009	529	218	486
2010	547	213	501
2011	562	207	512
2012	574	199	521
2013	582	191	527
2014	586	182	531
2015	587	173	531
2016	585	163	529
2017	579	152	523
2018	572	141	516
2019	562	130	507
2020	550	118	497
2021	537	105	485
2022	524	92	472
2023	509	77	458
2024	494	62	443
2025	477	46	427
2026	461	29	410
2027	443	11	393
2028	425	(1)	[2] 376
2029	406	(1)	[2] 358
2030	388	(1)	[2] 341
2031	369	(1)	[2] 323
2032	350	(1)	[2] 305
2033	332	(1)	[2] 287
2034	313	(1)	[2] 269
2035	295	(1)	[2] 251
2036	277	(1)	[2] 233
2037	258	(1)	[2] 215
2038	240	(1)	[2] 198
2039	222	(1)	[2] 180
2040	204	(1)	[2] 162
2041	186	(1)	[2] 144
2042	168	(1)	[2] 126
2043	150	(1)	[2] 108
2044	132	(1)	[2] 89
2045	113	(1)	[2] 71
2046	95	(1)	[2] 52
2047	76	(1)	[2] 33
2048	57	(1)	[2] 14
2049	37	(1)	(1)
2050	18	(1)	(1)
2051	(1)	(1)	(1)
2052	(1)	(1)	(1)
2053	(1)	(1)	(1)
2054	(1)	(1)	(1)
2055	(1)	(1)	(1)
2056	(1)	(1)	(1)
2057	(1)	(1)	(1)
2058	(1)	(1)	(1)
2059	(1)	(1)	(1)
2060	(1)	(1)	(1)

[1] The fund is projected to be exhausted.

[2] Because the DI fund is exhausted, these ratios are theoretical and are shown for information purposes only.

Note: The above estimates are based on the 1988 alternative II–B assumptions. The trust fund ratio is defined as the ratio of the trust fund balance at the beginning of the year to the outgo during the year. After 1983, ratios reflect the inclusion of advance tax transfers for January. These estimates reflect the repayment in 1986 of the remainder ($10.6 billion) of the $12.4 billion borrowed by OASI from HI in 1982.

TABLE 10.—ESTIMATED INCOME RATES BY TRUST FUND, ALTERNATIVE II–B, CALENDAR YEARS 1988–2065

[As a percentage of taxable payroll]

Calendar year	OASI			DI			Total		
	Payroll tax	Tax-ation of benefits	Total	Payroll tax	Tax-ation of benefits	Total	Payroll tax	Tax-ation of benefits	Total
1988	11.06	0.16	11.22	1.06	0.01	1.07	12.12	0.17	12.29
1989	11.06	.17	11.23	1.06	.01	1.07	12.12	.18	12.30
1990	11.20	.19	11.39	1.20	.01	1.21	12.40	.20	12.60
1991	11.20	.20	11.40	1.20	.01	1.21	12.40	.21	12.61
1992	11.20	.20	11.40	1.20	.01	1.21	12.40	.22	12.62
1993	11.20	.21	11.41	1.20	.01	1.21	12.40	.22	12.62
1994	11.20	.20	11.40	1.20	.01	1.21	12.40	.22	12.62
1995	11.20	.20	11.40	1.20	.01	1.21	12.40	.22	12.62
1996	11.20	.20	11.40	1.20	.01	1.21	12.40	.22	12.62
1997	11.20	.20	11.40	1.20	.01	1.21	12.40	.22	12.62
2000	10.98	.26	11.24	1.42	.02	1.44	12.40	.27	12.67
2005	10.98	.32	11.30	1.42	.02	1.44	12.40	.35	12.75
2010	10.98	.38	11.36	1.42	.03	1.45	12.40	.41	12.81
2015	10.98	.44	11.42	1.42	.03	1.45	12.40	.48	12.88
2020	10.98	.53	11.51	1.42	.04	1.46	12.40	.57	12.97
2025	10.98	.61	11.59	1.42	.04	1.46	12.40	.64	13.04
2030	10.98	.66	11.64	1.42	.04	1.46	12.40	.70	13.10
2035	10.98	.69	11.67	1.42	.04	1.46	12.40	.73	13.13
2040	10.98	.69	11.67	1.42	.04	1.46	12.40	.73	13.13
2045	10.98	.70	11.68	1.42	.04	1.46	12.40	.74	13.14
2050	10.98	.71	11.69	1.42	.04	1.46	12.40	.75	13.15
2055	10.98	.72	11.70	1.42	.04	1.46	12.40	.76	13.16
2060	10.98	.73	11.71	1.42	.04	1.46	12.40	.77	13.17
2065	10.98	.74	11.72	1.42	.04	1.46	12.40	.78	13.18

Source: 1988 Annual Report of the Board of Trustees.

TABLE 11.—INCOME TO THE OASI AND DI TRUST FUNDS FOR SELECTED FISCAL YEARS

[Dollars in millions]

	Fiscal year [1]—						Percent of total 1990 financing
	1970	1975	1980	1985	1989 [2]	1990 [2]	
Disability insurance:							
Net contributions	4,141	7,356	16,805	16,876	22,958	26,716	8.9
Income from taxation of benefits				217	210	241	.1
Payments from the general fund	16	52	118				(3)
Net interest	223	512	453	891	635	703	.2
Total	4,380	7,920	17,376	17,984	23,802	27,660	9.2
OASI:							
Net contributions	29,955	56,017	97,608	175,305	239,520	256,569	85.0
Income from taxation of benefits				3,151	3,683	4,262	1.4
Payments from the general fund of the Treasury	442	447	557	105	43	34	(3)
Net interest	1,350	2,292	1,886	1,321	9,143	13,183	4.4
Total	31,746	58,757	100,051	179,881	252,388	274,048	90.8
Grand total—OASI and DI	36,126	66,677	117,427	197,865	276,190	301,708	100.0

[1] Under the Congressional Budget Act of 1974, fiscal years 1977 and later consist of the 12 months ending on September 30 of each year. Fiscal years prior to 1977 consist of the 12 months ending on June 30 of each year.

[2] Based upon alternative II–B assumptions.

[3] Less than 0.05.

Source: 1988 Annual Report of the Board of Trustees.

ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

The following tables provide specific information concerning the economic and demographic assumptions which underlie the Social Security trustees' short and long-run financial projections.

TABLE 12.—ECONOMIC ASSUMPTIONS, 1960–2065

Calendar year	Average annual percentage increase in—			Real-wage differential [3] (percent)	Average annual unemployment rate [4] (percent)
	Real GNP [1]	Average wages in covered employment	Consumer Price Index [2]		
Past experience:					
1960–64	3.9	3.4	1.3	2.1	5.7
1965–69	4.4	5.4	3.4	2.0	3.8
1970–74	2.4	6.3	6.1	.2	5.4
1975	−1.3	6.7	9.1	−2.5	8.5
1976	4.9	8.5	5.7	2.8	7.7
1977	4.7	7.2	6.5	.7	7.1
1978	5.3	9.7	7.6	2.1	6.1
1979	2.5	9.2	11.4	−2.2	5.8
1980	−.2	9.1	13.5	−4.4	7.1
1981	1.9	9.3	10.3	−1.0	7.6
1982	−2.5	6.5	6.0	.6	9.7
1983	3.6	[5] 4.9	3.0	[5] 1.8	9.6
1984	6.8	[5] 5.7	3.4	[5] 2.3	7.5
1985	3.0	[5] 4.3	3.5	[5] .7	7.2
1986	2.9	[5] 4.4	1.6	[5] 2.8	7.0
Alternative II–B:					
1987	2.9	3.0	3.6	−.6	6.2
1988	2.5	4.8	3.9	.9	6.0
1989	2.8	5.6	4.5	1.1	6.2
1990	2.9	5.4	4.3	1.1	6.1
1991	2.8	5.4	4.2	1.3	6.0
1992	2.7	5.7	4.0	1.7	5.9
1993	2.6	5.6	4.0	1.6	5.8
1994	2.4	5.6	4.0	1.6	5.8
1995	2.3	5.5	4.0	1.5	5.8
1996	2.3	5.5	4.0	1.5	5.8
1997	2.3	5.5	4.0	1.5	5.7
2000	2.2	5.5	4.0	1.4	6.0
2010 and later	[6] 1.9	5.4	4.0	1.4	6.0

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[1] The real GNP (gross national product) is the total output of goods and services, expressed in 1982 dollars.

[2] The Consumer Price Index is the average of the 12 monthly values of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–W).

[3] The real-wage differential is the difference between the percentage increases, before rounding, in (1) average annual wages in covered employment, and (2) the average annual Consumer Price Index.

[4] Through 1997, the rates shown are crude civilian unemployment rates. After 1997, the rates are total rates (including military personnel), adjusted by age and sex based on the estimated total labor force on July 1, 1987.

[5] Preliminary.

[e] This value is for 2010. The annual percentage increase in real GNP is assumed to continue to change after 2010 to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The increase for 2065 is 1.6 for alternative II–B.

Source: Office of the Actuary, Social Security Administration.

TABLE 13.—MAJOR LONG-TERM DEMOGRAPHIC AND LABOR FORCE PARTICIPATION ASSUMPTIONS

[1988 trustees' report II–B assumptions]

FERTILITY RATES

	1917	1933	1947	1957	1976	1981	1995	2015+
Children born per woman in her lifetime	3.33	2.17	3.18	3.68	1.74	1.83	1.88	1.90

LIFE EXPECTANCIES

[Using mortality for calendar year]

	1900	1940	1960	1980	2000	2020	2060
Male:							
At birth	46.4	61.4	66.7	69.9	72.2	75.3	77.3
Age 65	11.3	11.9	12.9	14.0	15.7	16.4	17.8
Female:							
At birth	49.0	65.7	73.2	77.5	80.2	81.7	83.9
Age 65	12.0	13.4	15.9	18.4	19.8	20.6	22.4

PERCENTAGE OF THOSE BORN WHO CAN EXPECT TO REACH AGE 65

[Using mortality for calendar year]

	1900	1940	1960	1980	2000	2020	2060
Male	37.3	55.5	63.8	70.5	74.5	80.7	83.2
Female	41.0	65.4	78.2	83.4	86.7	88.5	90.1

LABOR FORCE PARTICIPATION RATES

[Age adjusted]

[In percent]

	1981	1985	1990	1995	2000	2060
Male	77.9	76.9	76.4	76.1	75.8	75.2
Female	52.1	54.6	57.7	58.8	58.7	57.8

COVERED WORK FORCE—NUMBER OF BENEFICIARIES AND DEPENDENCY RATES

	1960	1980	2000	2020	2040
Total population (in millions)	190	235	277	308	321
Covered workers	73	113	144	152	152
Beneficiaries (OASI and DI)	14	35	45	64	80
Aged dependency ratio [1]	.173	.195	.215	.292	.391
Total dependency ratio [2]	.904	.753	.673	.703	.806
Worker/beneficiary ratio	5.1	3.2	3.2	2.4	1.9

[1] Ratio of persons aged 65 and over to the number of persons aged 20–64.

[2] Ratio of nonworking age to working-age population—population under 20 plus population 65 and over divided by population 20–64.

PERCENT OF INSURED WORKERS DRAWING BENEFITS [1]

	1980	1990	2000	2010	2020	2030 [2]
62–64:						
Male	54.0	58.4	55.1	55.1	55.4	56.1
Female	69.8	76.0	68.0	68.5	67.8	67.9
65–69:						
Male	91.2	92.8	88.7	85.0	84.3	83.3
Female	97.0	96.7	93.1	91.7	90.9	89.5

[1] Includes all retired-worker beneficiaries, all disabled-worker beneficiaries and those widow(er) beneficiaries who would be retired-worker beneficiaries if they were to file claims.

[2] For years beyond 2030 (the last year of phase-in to a normal retirement age of 67), the figures show only small fluctuations.

SENSITIVITY OF LONG-TERM PROJECTIONS

Long-range estimates of the financial status of the OASDI trust funds are extremely sensitive to the basic social, economic, and demographic variables that underpin the projections. Slight variations in assumptions about future demographic or economic trends can lead to substantially different financial projections, and thus any longer term estimate is necessarily very uncertain. In general terms, the income to the funds crucially depends on long-run trends in covered wages paid to employees, which in turn depends on many fundamental economic and demographic factors, such as real wage growth in the economy, fluctuations in the size of the work force, productivity, and overall rates of fertility and immigration. The expenditures of the program depend on the amount of benefits that are paid, which is of course affected by the level of consumer inflation, changes in mortality rates and life expectancy, disability incidence, and work and retirement patterns among the elderly population.

As a way of illustrating the sensitivity of long-term projections to variations in basic assumptions, table 14 presents data on the effects of varying assumptions about real wage growth in the alternative II–B estimates. As the table shows, the assumption that real wage growth will equal 0.9 percent leads to a long-range deficit of

1.08 percent of taxable payroll, as compared to real wage growth of 2.4 percent, which would yield a long-term surplus of 0.44 percent of taxable payroll. This table is based on the premise that all other alternative II–B demographic and economic assumptions are held constant. (Under alternative II–B, the real wage growth assumption is 1.4 percent.)

TABLE 14.—ESTIMATED OASDI AVERAGE INCOME RATES, COST RATES, AND BALANCES, BASED ON ALTERNATIVE II–B WITH VARIOUS REAL-WAGE ASSUMPTIONS

[As a percentage of taxable payroll]

Calendar years	Ultimate percentage increase in wages-CPI [1]			
	4.9–4.0	5.4–4.0	5.9–4.0	6.4–4.0
Income rate:				
25-year: 1988–2012	12.80	12.78	12.76	12.75
50-year: 1988–2037	12.89	12.87	12.85	12.83
75-year: 1988–2062	12.96	12.94	12.92	12.89
Cost rate:				
25-year: 1988–2012	10.89	10.54	10.20	9.86
50-year: 1988–2037	12.82	12.34	11.87	11.40
75-year: 1988–2062	14.04	13.52	12.99	12.46
Actuarial balance:				
25-year: 1988–2012	+1.90	+2.24	+2.57	+2.89
50-year: 1988–2037	+.07	+.53	+.98	+1.43
75-year: 1988–2062	−1.08	−.58	−.07	+.44

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[1] The first value in each pair is the assumed ultimate annual percentage increase in average wages in covered employment. The second value is the assumed ultimate annual percentage increase in the Consumer Price Index. The difference between the two values is the real-wage differential.

Source: 1988 Trustee's Report.

Tables 15 and 16 provide information on the effects of varying two other key assumptions in estimating long-term financial solvency. Table 15 shows the impact of choosing among alternative assumptions of the ultimate total fertility rate in the general population. As the table demonstrates, a total fertility rate of 1.6 percent leads to a long-run deficit of 1.07 percent of taxable payroll, while a 2.2 percent fertility rate generates a 0.12 percent of taxable payroll deficit. The middle estimate, 1.9 percent, is employed in the alternative II–B projections.

TABLE 15.—ESTIMATED OASDI AVERAGE INCOME RATES, COST RATES, AND BALANCES, BASED ON ALTERNATIVE II–B WITH VARIOUS FERTILITY ASSUMPTIONS

[As a percentage of taxable payroll]

Calendar years	Ultimate total fertility rate [1]		
	1.6	1.9	2.2
Average income rate:			
25-year: 1988–2012	12.78	12.78	12.78
50-year: 1988–2037	12.88	12.87	12.87
75-year: 1988–2062	12.96	12.94	12.92
Average cost rate:			
25-year: 1988–2012	10.51	10.54	10.58
50-year: 1988–2037	12.45	12.34	12.25
75-year: 1988–2062	14.03	13.52	13.04
Balance:			
25-year: 1988–2012	+2.27	+2.24	+2.21
50-year: 1988–2037	+.43	+.53	+.62
75-year: 1988–2062	−1.07	−.58	−.12

[1] The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire child-bearing period. The ultimate total fertility rate is assumed to be reached in 2012.

Source: 1988 Trustee's Report.

Table 16 displays the effects of varying the death-rate assumptions in the alternative II–B estimate. The assumption that the age-sex-adjusted death rate will drop by 20 percent over the period 1988 through 2062 leads to a 0.01 percent surplus in taxable payroll in the long run, while a 56 percent drop in the death rate produces a long-range taxable payroll deficit of 1.40 percent of taxable payroll. The baseline death-rate assumption under alternative II–B is 36 percent.

TABLE 16.—ESTIMATED OASDI AVERAGE INCOME RATES, COST RATES, AND BALANCES, BASED ON ALTERNATIVE II–B WITH VARIOUS DEATH-RATE ASSUMPTIONS

[As a percentage of taxable payroll]

Calendar years	Reduction in death rates [1]		
	20 percent	36 percent	56 percent
Average income rate:			
25-year: 1988–2012	12.78	12.78	12.79
50-year: 1988–2037	12.86	12.87	12.89
75-year: 1988–2062	12.91	12.94	12.98
Average cost rate:			
25-year: 1988–2012	10.39	10.54	10.70
50-year: 1988–2037	11.96	12.34	12.81
75-year: 1988–2062	12.90	13.52	14.38
Balance:			
25-year: 1988–2012	+2.39	+2.24	+2.09
50-year: 1988–2037	+.90	+.53	+.08
75-year: 1988–2062	+.01	−.58	−1.40

[1] The measure of the reduction in death rates is the decrease in the age-sex-adjusted death rate during 1988–2062.

Source: 1988 Trustee's Report.

Similar, though less drastic, variations occur when assumptions related to net immigration, inflation, disability incidence, and other factors are modified. This sensitivity underscores the uncertainty of long-term financial estimates.

APPENDIX A. STATISTICAL HISTORY AND FUTURE BENEFIT PROJECTIONS OF THE SOCIAL SECURITY PROGRAMS

The Social Security Act of 1935 was signed into law on August 14, 1935. The immediate origin of this legislation was the Committee on Economic Security which had been charged by President Roosevelt with the task of devising safeguards "against misfortune which cannot be wholly eliminated in the man-made world of ours."

In addition to the Federal old-age retirement program (title II), the original Social Security Act also included grants-in-aid to States for: old-age pensions based on need (title I); unemployment compensation systems (title III); aid to dependent children (title IV); maternal and child welfare services, care of crippled children (title V), and and public health work (title VI).

The original act has been amended on numerous occasions since 1935. However, the most significant changes to title II were made by the Social Security Amendments of 1939, 1950, 1954, 1956, 1965, 1972, 1977, and 1983. In addition, the medicare (title XVIII) program was added to the Social Security Act in 1965.

Today the term "Social Security" is seldom used to refer to all of the programs included in the Social Security Act. The term is most often used to refer to either solely title II, the old-age and survivor program insurance program and, since 1956, the disability insurance program, or to both title II and to title XVIII, the Medicare program. This appendix presents historical data concerning the coverage, benefits and financing of each of the three programs.

COVERAGE

The original Social Security Act provided coverage on a mandatory basis under the old-age insurance program of all employees in commerce and industry (except railroad) under age 65. Specifically excluded from coverage "due to difficulties in collecting the tax" were the following services: agricultural labor; domestic services in a private home; casual labor not in the course of the employer's trade or business; and services performed by an officer or member of a crew on a documented vessel. Also specifically excluded were services performed in the employ of: the United States Government, a State or any political subdivision of a State; and nonprofit (including religious) organizations.

Coverage has been extended both on a mandatory and a voluntary basis. Mandatory coverage was extended to workers age 65 and over not otherwise excluded in 1939. In 1950 non-farm self-employed, regularly employed farm and domestic workers, and Federal civilian employees not under a retirement system were covered on a mandatory basis. In addition, the 1950 amendments provided elective coverage to State and local government employees not under a retirement system and employees of nonprofit organizations.

The most significant extensions of coverage provided by the 1954 amendments were to self-employed farmers on a mandatory basis and, on an elective basis, State and local government employees (except firemen and policemen) under retirement systems and ministers. Coverage was extended to members of the uniformed services in 1956, and to ministers and members of religious orders who do not choose to be exempt on religious grounds. In 1983, coverage was extended on a compulsory basis to the following major groups: Federal employees hired after December 31, 1983; current and future Members of Congress; the President and Vice President; Federal judges; and all employees of nonprofit organizations.

Effective in 1983, Federal civilians are covered under the Hospital Insurance portion of the Medicare program. Medicare coverage was also extended on a mandatory basis to State and local government employees hired after April 1, 1986. States are permitted to extend Medicare coverage (without extending coverage under Social Security cash benefits) to employees hired prior to April 1986 by voluntary agreement with the Secretary.

The following two tables detail the extension of coverage under the Social Security program in terms of both jobs and wages:

TABLE 1.—CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, 1939–87

[In millions]

Year	Paid civilian employees [1]	OASDI coverage	Percent covered	OASDHI coverage	Percent covered
1939 [2]	43.6	24.0	55.1	24.0	55.1
1944 [2]	51.2	30.8	60.2	30.8	60.2
1949 [2]	56.7	34.3	60.5	34.3	60.5
1954 [2]	59.5	45.3	76.1	45.3	76.1
1955	62.8	51.8	82.5	51.8	82.5
1956	63.2	53.2	84.2	53.2	84.2
1957	63.1	53.7	85.1	53.7	85.1
1958	62.7	53.4	85.2	53.4	85.2
1959	64.4	55.4	86.0	55.4	86.0
1960	64.6	55.7	86.2	55.7	86.2
1961	65.3	56.1	85.9	56.1	85.9
1962	66.4	57.3	86.3	57.3	86.3
1963	67.6	58.5	86.5	58.5	86.5
1964	69.3	60.1	86.7	60.1	86.7
1965	71.6	62.7	87.6	62.7	87.6
1966	73.6	64.9	88.2	64.9	88.2
1967	74.4	65.7	88.3	65.7	88.3
1968	75.9	67.1	88.4	67.1	88.4
1969	78.0	68.6	87.9	68.6	87.9

TABLE 1.—CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, 1939–87—Continued

[In millions]

Year	Paid civilian employees[1]	OASDI coverage	Percent covered	OASDHI coverage	Percent covered
1970	77.8	69.9	89.9	69.9	89.9
1971	79.6	71.7	90.1	71.7	90.1
1972	82.6	74.7	90.4	74.7	90.4
1973	85.6	77.6	90.6	77.6	90.6
1974	85.4	77.3	90.5	77.3	90.5
1975	86.0	77.9	90.6	77.9	90.6
1976	89.2	81.0	90.9	81.0	90.9
1977	93.5	85.1	91.0	85.1	91.0
1978	97.0	88.4	91.2	88.4	91.2
1979	99.4	90.7	91.3	90.7	91.3
1980	99.2	90.4	91.1	90.4	91.1
1981	99.0	90.2	91.1	90.2	91.1
1982	98.3	89.8	91.4	89.8	91.4
1983	102.2	93.6	91.6	96.0	94.0
1984	105.5	97.9	92.7	100.3	95.0
1985	107.7	100.0	92.9	102.4	95.1
1986	110.2	102.6	93.0	104.8	95.1
1987	113.3	105.8	93.4	107.9	95.2

[1] Includes paid employees and self-employed for all years.

[2] Monthly average for these years; all other years as of December.

Source: Social Security Annual Statistical Supplement, 1982, and Office of Research and Statistics.

TABLE 2.—CIVILIAN WAGES COVERED BY OASDI SYSTEM, 1946–87[1]

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1946	$148.3	$79.3	....	$79.3	53.5	$69.1	87.1
1947	158.6	92.4	....	92.4	58.3	78.4	84.8
1948	176.0	102.3	....	102.3	58.1	84.1	82.2
1949	170.6	100.0	....	100.0	58.6	81.8	81.8
1950	186.1	109.8	....	109.8	59.0	87.5	79.7
1951	215.6	132.5	$16.4	148.9	69.1	120.8	81.1
1952	230.1	143.5	16.4	159.9	69.5	128.6	80.5
1953	242.4	156.0	17.0	173.0	71.4	135.9	78.5

TABLE 2.—CIVILIAN WAGES COVERED BY OASDI SYSTEM, 1946–87 [1]—Continued

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1954	240.7	155.1	16.8	171.9	71.4	133.5	77.7
1955	257.4	171.6	24.5	196.1	76.2	157.5	80.3
1956	276.0	188.5	28.3	216.8	78.6	170.7	78.8
1957	288.8	205.5	28.4	233.9	81.0	181.4	77.5
1958	292.8	208.0	28.5	236.5	80.8	180.7	76.4
1959	311.5	225.1	29.9	255.0	81.9	202.3	79.3
1960	324.9	236.0	29.2	265.2	81.6	207.0	78.1
1961	334.8	240.7	30.0	270.7	80.9	209.6	77.4
1962	355.9	257.7	31.3	289.0	81.2	219.1	75.8
1963	372.4	270.6	31.7	302.3	81.2	225.6	74.6
1964	398.2	290.9	33.6	324.5	81.5	236.4	72.8
1965	428.8	311.4	40.3	351.7	82.0	250.7	71.3
1966	469.8	346.7	44.0	390.7	83.2	312.5	80.0
1967	500.1	377.5	44.8	422.3	84.4	330.0	78.1
1968	547.4	413.6	46.4	460.0	84.0	375.8	81.7
1969	597.6	455.7	47.1	502.8	84.1	402.6	80.1
1970	631.7	483.6	48.0	531.6	85.2	415.6	78.2
1971	671.2	509.0	50.7	559.7	83.4	427.0	76.3
1972	737.0	563.3	54.6	617.9	83.8	484.1	78.3
1973	827.7	624.4	62.3	686.7	83.0	561.9	81.8
1974	891.0	681.6	65.2	746.7	83.8	636.8	85.3
1975	940.1	717.2	70.4	787.6	83.8	664.7	84.4
1976	1,037.2	797.2	76.8	874.7	84.3	737.7	84.3
1977	1,146.9	883.1	80.7	963.8	84.0	816.0	84.7
1978	1,295.8	1,002.2	93.7	1,095.9	84.6	917.8	83.7
1979	1,443.9	1,125.0	100.2	1,225.2	84.9	1,073.9	87.7
1980	1,552.6	1,230.5	97.7	1,328.2	85.5	1,175.8	88.5
1981	1,697.1	1,348.2	98.9	1,447.1	85.3	1,293.0	89.4
1982	1,761.7	1,425.1	98.6	1,523.7	86.5	1,363.9	89.5
1983 [2]	1,867.1	1,501.6	109.3	1,610.9	86.3	1,453.6	90.2
1984 [2]	2,073.5	1,662.0	117.2	1,779.2	85.8	1,607.8	90.4
1985 [2]	2,231.1	1,779.3	126.4	1,905.7	85.4	1,715.8	90.0
1986 [2]	2,380.7	1,904.3	139.0	2,043.3	85.8	1,847.7	90.4
1987 [2]	2,561.4	2,048.6	154.2	2,202.8	86.0	1,962.9	89.1

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[1] Sum of wages and salaries and proprietors' income with inventory valuation and capital consumption adjustments, as estimated by the Bureau of Economic Analysis in the National Income and Product Accounts.

[2] Preliminary.

Source: Social Security Bulletin, Annual Statistical Supplement, 1983, and Office of Research and Statistics.

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS UNDER OASDI, 1937–1987

Year	Workers with taxable earnings [1]	With maximum earnings	Average earnings per worker	
			Total earnings [2]	Reported taxable
1937	32,900	1,031	$979	$900
1938	31,820	933	896	833
1939	33,750	1,055	954	881
1940	35,390	1,196	1,009	932
1941	40,980	1,866	1,110	1,021
1942	46,360	3,569	1,255	1,142
1943	47,660	5,942	1,462	1,310
1944	46,300	7,163	1,583	1,392
1945	46,390	6,361	1,543	1,357
1946	48,840	6,477	1,624	1,415
1947	48,910	9,620	1,890	1,602
1948	49,020	12,061	2,087	1,716
1949	46,800	11,740	2,137	1,748
1950	48,280	13,936	2,274	1,812
1951	58,120	14,270	2,562	2,078
1952	59,580	16,606	2,684	2,159
1953	60,840	19,013	2,844	2,233
1954	59,610	18,866	2,884	2,240
1955	65,200	16,704	3,008	2,416
1956	67,610	19,236	3,207	2,525
1957	70,590	21,095	3,314	2,569
1958	69,770	21,328	3,390	2,590
1959	71,700	19,112	3,556	2,822
1960	72,530	20,310	3,656	2,854
1961	72,820	21,265	3,717	2,879
1962	74,280	23,154	3,891	2,949
1963	75,540	24,570	4,002	2,986
1964	77,430	26,717	4,191	3,053
1965	80,680	29,136	4,359	3,108
1966	84,600	20,498	4,618	3,694
1967	87,040	22,948	4,852	3,791
1968	89,380	19,120	5,147	4,205
1969	92,060	22,577	5,462	4,373
1970	93,090	24,224	5,711	4,464
1971	93,340	26,404	5,996	4,574
1972	96,240	24,074	6,420	5,030
1973	99,830	20,250	6,879	5,628
1974	101,330	15,310	7,369	6,284

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS UNDER OASDI, 1937–1987—Continued

Year	Workers with taxable earnings [1]	With maximum earnings	Average earnings per worker: Total earnings [2]	Average earnings per worker: Reported taxable
1975	100,200	15,070	7,860	6,633
1976	102,600	15,330	8,525	7,190
1977	105,800	15,700	9,075	7,718
1978	110,600	17,050	9,823	8,278
1979	112,700	11,236	10,805	9,465
1980	113,000	9,903	11,742	10,396
1981	113,000	8,594	12,806	11,442
1982	111,800	7,929	13,629	12,123
1983 [3]	113,000	7,082	14,256	12,817
1984 [3]	117,000	7,464	15,142	13,746
1985 [3]	121,300	7,762	15,710	14,247
1986 [4]	124,500	7,968	16,370	14,825
1987 [5]	127,900	8,186	16,973	15,360

[1] Relates to wage and salary workers for 1937–50. Beginning 1951, includes self-employment.

[2] Total wages, including estimated amounts above taxable limit, for 1937–50. Beginning 1951, also includes reported total net earnings of self-employed persons.

[3] Data subject to adjustment.

[4] Taxable earnings are preliminary estimates based on Social Security data; employment and total covered earnings are preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

[5] Preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 4.B1.

BENEFITS

In order to be fully insured under the 1939 Amendments, a worker needed 2 quarters of coverage for each year elapsed since 1936 and before the quarter in which the worker died or turned 65. The minimum required for insured status was 6 quarters and the maximum was 40. The Social Security Amendments of 1950 significantly increased the number of workers who were insured for monthly benefits by requiring two quarters of coverage, which could be earned at any time, for each calendar year after 1950 or age 21, subject to the same maximum and minimum. The 1961 Amendments changed the requirement for fully insured status to only one quarter of coverage for each calendar year after 1950 or age 21. To be insured for disability benefits, under the 1956 amendments, a worker needed to have earned 6 quarters of coverage in the 13 quarters preceding disability (currently insured) and have earned 20 quarters of coverage in the 40 quarters preceding disability, in addition to being fully insured. The 1958 Amendments eliminated the currently insured status requirement. The 1967 Amendments liberalized the insured status requirement for disabled workers under age 31, which significantly increased the number of workers insured for disability beginning in 1969.

The 1935 Social Security Act provided monthly benefits to retired workers age 65 and over and a lump-sum death benefit to the estate of these workers. The monthly benefits were to first be paid beginning January 1, 1942. The 1939 Social Security Amendments provided benefits to dependents—wives aged 65 and over and children under age 16 (changed to 18 in 1946)—of retired workers, and to survivors—widows aged 65, mothers with eligible child in care, children under age 16, and dependent parents—of deceased workers. In addition the 1939 Amendments provided that these benefits first be paid in 1940.

Benefits that have been added in retirement and survivors programs since 1939 include: retired women aged 62–64 (1956); retired men aged 62–64 (1961); widows aged 60–64 (1956 and 1965); widowers aged 60 and over (1950, 1961, and 1972); and, disabled widows age 50 and over (1967, 1972, and 1977).

In 1956, benefits were extended to disabled workers aged 50–64 and to disabled children of retired, disabled, or deceased workers age 18 and over, if they became disabled prior to age 18. The 1958 Amendments provided benefits to dependents of disabled workers on the same basis as dependents of retired workers. Benefits for disabled workers under age 50 were provided in 1960.

Monthly cash benefits have been increased on an ad hoc basis 10 times prior to the first automatic cost-of-living adjustment which was incorporated in the act by the Social Security Amendments of 1972. Beginning with the 1975 increase, benefits have been automatically adjusted to keep pace with inflation. Since 1975, there have been increases annually except during calendar year 1983.

The following tables provide historical background concerning changes in insured status, benefit types, average amounts and increases, and OASDHI benefits paid:

TABLE 4.—ESTIMATED NUMBER OF PERSONS INSURED FOR OASDI, 1940–88 [1]

[In millions]

At beginning of year	Insured for retirement and/or survivor benefits					Workers insured in event of disability
	Total insured	Fully insured			Currently insured only	
		Total	Permanently insured	Not permanently insured		
1940	22.9	22.9	0.6	22.3	(2)	....
1941	24.9	24.2	1.1	23.1	0.7	....
1942	27.5	25.8	1.4	24.4	1.7	....
1943	31.2	28.1	1.8	26.3	3.1	....
1944	34.9	29.9	2.3	27.6	5.0	....
1945	38.6	31.9	2.8	29.1	6.7	....
1946	40.3	33.4	3.4	30.0	6.9	....
1947	41.8	35.4	8.6	26.8	6.4	....
1948	43.4	37.3	11.6	25.7	6.1	....
1949	44.8	38.9	13.2	25.7	5.9	....
1950	45.7	40.1	14.9	25.2	5.6	....
1951	59.8	59.8	21.0	38.8	(2)	....
1952	62.8	62.8	22.9	39.9	(2)	....
1953	68.2	68.2	25.6	42.7	(2)	....
1954	71.0	71.0	27.7	43.4	(2)	....
1955	70.6	70.2	29.9	40.4	.4	31.9
1956	71.4	70.5	32.5	38.0	.9	35.4
1957	74.3	74.0	36.1	38.0	.3	37.2
1958	77.0	76.1	38.3	37.9	.9	38.4
1959	78.9	76.5	40.3	36.2	2.4	43.4
1960	79.7	76.7	42.2	34.6	3.0	46.4
1961	85.4	84.4	47.6	36.8	1.0	48.5
1962	89.1	88.5	53.3	35.3	.5	50.5
1963	90.4	89.8	54.9	34.8	.6	51.5
1964	92.0	91.3	56.6	34.7	.8	52.3
1965	93.6	92.8	58.3	34.5	.9	53.3
1966	95.8	94.8	60.2	34.6	.9	55.0
1967	98.3	97.2	61.9	35.3	1.1	55.7
1968	101.2	99.9	63.3	36.6	1.3	56.9
1969	104.0	102.6	64.5	38.1	1.4	70.1
1970	106.5	105.0	65.7	39.4	1.5	72.4
1971	109.7	108.1	67.1	40.9	1.6	74.5
1972	112.3	110.6	68.3	42.3	1.7	76.1
1973	115.0	113.4	69.7	43.6	1.6	77.8
1974	118.1	116.5	71.0	45.5	1.6	80.4
1975	121.6	120.0	72.5	47.5	1.6	83.3

TABLE 4.—ESTIMATED NUMBER OF PERSONS INSURED FOR OASDI, 1940–88 [1]—Continued

[In millions]

At beginning of year	Insured for retirement and/or survivor benefits					Workers insured in event of disability
	Total insured	Fully insured			Currently insured only	
		Total	Permanently insured	Not permanently insured		
1976	124.5	122.9	74.1	48.8	1.6	85.3
1977	127.5	125.9	76.0	49.9	1.6	87.0
1978	130.4	128.9	78.0	50.9	1.5	89.3
1979	135.1	133.3	80.3	52.9	1.8	93.7
1980	138.7	137.0	82.6	54.4	1.7	98.0
1981	141.2	139.5	84.5	55.0	1.7	100.5
1982	144.1	142.4	87.6	54.9	1.7	102.4
1983	146.1	144.5	90.5	54.0	1.6	104.0
1984	147.5	146.0	93.6	52.4	1.5	104.9
1985	149.5	148.1	96.7	51.4	1.4	106.7
1986	152.0	150.5	99.7	50.8	1.5	109.6
1987	154.3	152.7	103.1	49.6	1.5	111.5
1988	156.4	154.9	106.5	48.4	1.5	113.3

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[1] Estimated counts include those who have sufficient quarters of coverage to meet the eligibility requirements for retired-worker or disabled-worker benefits (including persons already receiving such benefits) or to permit the worker's spouse and children or survivors to establish eligibility for spouse's and children's or survivor's benefits in the event of his or her disability, retirement, or death. Beginning in 1966, transitionally insured persons are included with the permanently insured.

[2] Persons currently insured before July 1940, or currently insured after August 1950 and before July 1954, are also fully insured.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 4.C1.

TABLE 5.—PERCENT OF INSURED WORKERS AGED 62 AND OVER IN CURRENT PAYMENT STATUS, 1941–88 [1]

	Aged 62–64			Aged 65 and over		
	Male	Female	Total	Male	Female	Total
1941				20	25	20
1945				29	40	30
1950				59	61	59
1951				57	55	56
1952				64	70	65
1953				60	64	61
1954				66	71	67
1955				70	75	71
1956				75	80	76
1960		44	44	84	87	85
1965	32	47	38	89	89	89
1966	32	46	37	90	89	89
1967	33	46	38	90	91	91
1968	33	46	38	90	91	90
1969	34	46	39	90	91	90
1970	34	46	39	90	90	90
1971	36	47	41	90	90	90
1972	39	49	43	91	89	90
1973	41	52	46	92	90	91
1974	44	54	48	94	91	93
1975	46	56	50	93	93	93
1976	49	57	53	94	93	93
1977	49	57	53	95	93	94
1978	52	59	55	95	93	94
1979	51	59	54	95	93	94
1980	52	59	55	95	93	94
1981	53	59	55	95	93	94
1982	54	59	56	95	93	94
1983	57	59	58	96	89	93
1984	57	59	58	97	90	93
1985	57	59	58	96	89	92
1986	58	59	58	96	89	92
1987	59	59	59	96	89	92
1988	59	59	59	96	89	92

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[1] Includes both OASI and DI worker benefits.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 4.C4.

TABLE 6.—NUMBER OF OASDI BENEFIT RECIPIENTS WITH BENEFITS IN CURRENT-PAYMENT STATUS, BY BENEFICIARY TYPE, DECEMBER 1940–87

[In thousands]

At end of selected year	Retired workers and auxiliaries								Disabled workers and auxiliaries			
	Total	Retired workers	Wives and husbands	Children [1]	Widowed mothers and fathers	Widows and widowers	Parents	Persons with special age–72 benefits	Total	Disabled workers	Wives and husbands	Children
1940	222	112	30	55	20	4	1					
1945	1,288	518	159	390	121	94	6					
1950	3,477	1,771	508	700	169	314	15					
1955	7,961	4,474	1,192	1,276	292	701	25					
1960	14,157	8,061	2,269	1,845	401	1,544	36		687	455	77	155
1961	15,468	8,925	2,392	1,989	428	1,697	37		1,027	618	118	291
1962	16,778	9,739	2,531	2,160	452	1,859	37		1,275	741	147	387
1963	17,583	10,263	2,581	2,230	462	2,011	37		1,452	827	168	457
1964	18,236	10,669	2,604	2,298	471	2,159	36		1,563	894	179	490
1965	19,128	11,101	2,614	2,535	472	2,371	35		1,739	988	193	558
1966	20,797	11,658	2,640	2,739	488	2,602	35	634	1,970	1,097	220	654
1967	21,565	12,019	2,645	2,873	496	2,770	33	729	2,140	1,193	235	713
1968	22,225	12,421	2,645	3,009	505	2,938	32	676	2,335	1,295	253	787
1969	22,827	12,822	2,644	3,123	512	3,092	30	603	2,488	1,394	264	829
1970	23,564	13,349	2,668	3,234	523	3,227	29	534	2,665	1,493	283	889
1971	24,362	13,927	2,698	3,336	535	3,366	27	472	2,930	1,648	312	971
1972	25,205	14,555	2,735	3,427	541	3,510	26	410	3,271	1,833	350	1,088
1973	26,310	15,365	2,808	3,526	572	3,656	25	358	3,559	2,017	381	1,161

TABLE 6.—NUMBER OF OASDI BENEFIT RECIPIENTS WITH BENEFITS IN CURRENT-PAYMENT STATUS, BY BENEFICIARY TYPE, DECEMBER 1940–87—Continued

[In thousands]

At end of selected year	Retired workers and auxiliaries								Disabled workers and auxiliaries			
	Total	Retired workers	Wives and husbands	Children [1]	Widowed mothers and fathers	Widows and widowers	Parents	Persons with special age–72 benefits	Total	Disabled workers	Wives and husbands	Children
1974	26,941	15,959	2,826	3,513	574	3,770	23	278	3,911	2,237	412	1,263
1975	27,732	16,588	2,867	3,562	582	3,889	21	223	4,352	2,489	453	1,411
1976	28,397	17,164	2,896	3,556	579	3,994	20	188	4,624	2,670	474	1,480
1977	29,217	17,821	2,961	3,552	583	4,119	18	159	4,860	2,837	495	1,525
1978	29,718	18,358	2,980	3,441	576	4,212	17	134	4,868	2,880	492	1,497
1979	30,347	18,970	2,991	3,363	574	4,321	16	112	4,777	2,871	475	1,431
1980	30,907	19,562	3,016	3,249	562	4,411	15	93	4,678	2,859	462	1,358
1981 [2]	31,550	20,195	3,031	3,178	548	4,508	14	76	4,456	2,777	428	1,252
1982	31,866	20,763	3,039	2,879	515	4,595	12	63	3,973	2,604	366	1,004
1983	32,272	21,419	3,039	2,657	400	4,694	11	51	3,813	2,569	308	936
1984	32,657	21,906	3,051	2,487	382	4,779	10	40	3,822	2,597	304	921
1985	33,151	22,432	3,069	2,374	372	4,863	10	32	3,907	2,657	306	945
1986	33,707	22,981	3,088	2,328	351	4,928	9	25	3,996	2,728	301	967
1987 [2]	34,145	23,440	3,090	2,276	329	4,984	8	19	4,045	2,786	291	968

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[1] Dependents of survivors.

[2] Based on unedited monthly data.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Tables 5.A4, 5.F1, and 5.F4.

TABLE 7.—OASDI BENEFICIARY FAMILIES WITH BENEFITS IN CURRENT-PAY STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–87

[In thousands]

Year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only			Worker and wife	Aged widow only	Widowed mother and—			Worker only			Worker, wife, and—		Worker and spouse
	Total	Men	Women			1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	
1944	315	253	62	135	69	67	36	20						
1950	1,240	939	301	498	314	82	53	33						
1955	3,266	2,054	1,212	1,124	700	126	86	80						
1960	5,742	2,922	2,820	2,122	1,527	172	113	114	357	261	96	22	32	22
1965	8,386	4,137	4,249	2,400	2,332	182	135	153	714	481	232	54	109	30
1970	10,533	4,904	5,629	2,457	3,080	183	155	182	1,054	680	374	77	164	43
1975	13,520	6,134	7,385	2,618	3,606	221	182	176	1,750	1,080	671	137	250	66
1980	16,314	7,286	9,028	2,736	4,033	239	184	134	2,061	1,257	804	154	228	80
1982	17,519	7,852	9,667	2,784	4,191	236	165	106	1,969	1,208	760	124	163	78
1983	18,162	8,166	9,996	2,830	4,271	161	141	92	1,961	1,215	746	85	143	80
1984	18,613	8,362	10,251	2,839	4,520	159	135	79	1,993	1,241	752	83	140	76
1985	19,132	8,601	10,531	2,861	4,606	158	131	74	2,039	1,267	772	84	140	76
1986	19,664	8,849	10,816	2,883	4,666	151	123	68	2,096	1,301	795	82	136	74
1987	20,137	9,064	11,074	2,893	4,709	141	115	62	2,154	1,338	816	79	132	74

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[1] Data for 1981 are not available.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 5.H1.

TABLE 8.—OASDI AVERAGE MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–87

[Average monthly amount]

At end of year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only			Worker and wife	Aged widow only	Widowed mother and—			Worker only			Worker, wife, and—		Worker and spouse
	Total	Men	Women			1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	
1944	23.00	24.10	19.30	37.90	20.20	34.40	47.30	50.10						
1950	42.20	44.60	34.80	71.70	36.50	76.90	93.90	92.40						
1955	59.10	64.60	49.80	103.50	48.70	106.80	135.40	133.20						
1960	69.90	79.90	59.60	123.90	57.70	131.70	188.00	181.70	87.90	91.90	76.90	184.70	192.20	135.50
1965	80.10	90.50	70.00	141.50	73.90	153.00	219.80	218.10	95.40	100.70	85.00	201.00	216.30	145.90
1970	114.20	128.70	101.60	198.90	102.40	213.00	291.10	289.90	128.10	136.30	113.10	264.10	273.20	199.20
1975	201.60	225.50	181.80	343.90	195.90	367.20	468.60	461.80	218.90	240.00	185.00	441.00	454.00	344.00
1980	333.00	377.10	297.40	566.60	311.60	612.80	759.20	740.50	355.40	396.20	291.70	727.00	746.10	573.00
1982	408.90	465.50	362.90	702.50	379.00	735.60	885.50	867.90	424.20	474.20	344.70	847.40	858.20	690.70
1983	429.70	490.00	380.40	742.90	400.60	774.80	923.00	884.50	439.40	490.40	355.40	867.90	881.80	716.20
1984	448.20	511.60	396.40	781.20	416.30	805.30	948.30	906.60	454.00	507.60	365.70	881.50	885.50	740.40
1985	465.80	531.80	412.00	813.90	434.30	829.60	981.50	924.90	466.90	523.10	374.60	898.10	895.20	765.00
1986	475.20	542.60	420.10	831.30	444.90	841.70	994.00	939.80	470.70	527.80	377.40	896.90	888.30	773.30
1987	499.20	570.40	440.80	873.30	468.70	882.10	1,032.30	968.90	491.60	552.00	392.60	929.40	918.30	815.50

[1] Data for 1981 not available.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 5.H1.

TABLE 9.—FAMILIES AND SINGLE INDIVIDUALS WHO WERE RECIPIENTS OF SOCIAL SECURITY IN 1986 [1]

Gross Income of Families Receiving Social Security [2]

	Number of families [3]	Median total family income	Percent of families receiving Social Security	Cumulative percent of families receiving Social Security	Percent of Social Security payments	Cumulative percent of Social Security payments
Below $5,000	2,499,727	$4,158	10.3	10.3	4.9	4.9
$5,000 to $9,999	5,850,078	7,142	24.1	34.4	20.0	24.9
$10,000 to $14,999	4,057,944	12,282	16.7	51.1	17.8	42.7
$15,000 to $19,999	3,039,786	17,400	12.5	63.6	14.6	57.3
$20,000 to $24,999	2,201,827	22,226	9.1	72.7	10.7	68.0
$25,000 to $29,999	1,649,654	27,158	6.8	79.5	7.9	76.0
$30,000 to $34,999	1,208,494	32,239	5.0	84.5	5.8	81.8
$35,000 to $39,999	977,460	37,301	4.0	88.5	4.5	86.3
$40,000 to $44,999	644,817	42,533	2.7	91.1	3.2	89.4
$45,000 to $49,999	476,474	47,200	2.0	93.1	2.4	91.8
$50,000 or more	1,675,169	65,184	6.9	100.0	8.2	100.0
Total	24,281,431			100.0		100.0

TABLE 9.—FAMILIES AND SINGLE INDIVIDUALS WHO WERE RECIPIENTS OF SOCIAL SECURITY IN 1986 [1]—Continued

Family Income Not Including Social Security Benefits

	Number of families [3]	Median total family income minus Social Security	Percent of families receiving Social Security	Cumulative percent of families receiving Social Security	Percent of total Social Security payments	Cumulative percent of total Social Security payments
Below $5,000	10,240,791	$1,000	42.2	42.2	38.7	38.7
$5,000 to $9,999	3,783,203	7,170	15.6	57.8	16.8	55.5
$10,000 to $14,999	2,595,279	12,157	10.7	68.4	11.5	66.9
$15,000 to $19,999	1,943,712	17,257	8.0	76.4	8.6	75.5
$20,000 to $24,999	1,352,900	22,280	5.6	82.0	5.8	81.3
$25,000 to $29,999	1,038,248	27,412	4.3	86.3	4.5	85.8
$30,000 to $34,999	830,372	32,200	3.4	89.7	3.4	89.2
$35,000 to $39,999	595,538	37,143	2.5	92.2	2.6	91.8
$40,000 to $44,999	439,234	42,250	1.8	94.0	2.0	93.8
$45,000 to $49,999	303,790	47,300	1.3	95.2	1.2	95.0
$50,000 or more	1,158,363	66,030	4.8	100.0	5.0	100.0
Total	24,281,431			100.0		100.0

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[1] Families or individuals receiving railroad retirement income have been excluded from this table. The Census Bureau does not differentiate between Social Security income and railroad retirement income, therefore the exclusion of the railroad retirees avoids improper overestimation of median dollar amounts. Railroad retirees being excluded makeup only 2% of the total.

[2] Gross family income includes the income of family members who do not receive Social Security.

[3] For the purposes of this table unrelated subfamilies are included as separate family units. For the purposes of this table unrelated individuals are counted as families of one. Table prepared by the Congressional Research Service (CRS), Education and Public Welfare Division. The numbers above are estimates of the population and subject to sampling error. Sampling error may be substantial for numbers based on fewer than 100,000 cases.

Source: March 1987 Current Population Survey (CPS).

TABLE 10.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965–88

[In percent]

	Increases in wages [1]		Increase in CPI [2]		Increase in benefits [3]	
	Over prior year	Cumulative from each year to 1988	Over prior year	Cumulative from each year to 1988	Over prior year	Cumulative from each year to 1988
1965	1.8	316.9	1.7	268.0	7.0	348.8
1966	6.0	293.3	2.9	257.6	0	348.8
1967	5.6	272.4	2.9	247.6	0	348.8
1968	6.9	248.4	4.2	233.5	13.0	297.2
1969	5.8	229.3	5.4	216.5	0	297.2
1970	5.0	213.6	5.9	198.8	15.0	245.4
1971	5.0	198.7	4.3	186.5	10.0	214.0
1972	9.8	172.0	3.3	177.4	20.0	161.7
1973	6.3	155.9	6.2	161.2	0	161.7
1974	5.9	141.6	11.0	135.3	11.0	135.7
1975	7.5	124.8	9.1	115.7	8.0	118.3
1976	6.9	110.2	5.7	104.0	6.4	105.1
1977	6.0	98.4	6.5	91.6	5.9	93.7
1978	7.9	83.8	7.6	78.0	6.5	81.9
1979	8.7	69.1	11.4	59.8	9.9	65.5
1980	9.0	55.2	13.5	40.8	14.3	44.8
1981	10.1	40.9	10.2	27.8	11.2	30.2
1982	5.5	33.6	6.0	20.5	7.4	21.2
1983	4.9	27.3	3.0	17.0	[4] 3.5	17.1
1984	5.9	20.2	3.4	13.2	3.5	13.2
1985	4.3	15.3	3.5	9.4	3.1	9.8
1986	3.0	11.9	1.5	7.7	1.3	8.4
1987	6.4	5.2	3.6	4.0	4.2	4.0
1988	[5] 5.2	....	4.0	....	[6] 4.0	....

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[1] Average annual earnings series used to index earnings records.

[2] Increase in annual average CPI–W.

[3] Legislated benefit increases through 1975 and increases based on CPI thereafter.

[4] As a result of the Social Security Amendments of 1983, COLA's are provided on a calendar year basis, with the benefit increase payable in January rather than July. The July 1983 COLA was delayed to January 1984. This delay and a change in the computation period led to 6 months of 1983 not being accounted for in any COLA increase.

[5] Preliminary.

[6] Effective December 1988, payable January 1989.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 11.—OASDHI EXPENDITURES AS PERCENT OF TOTAL SOCIAL WELFARE EXPENDITURE [1]

[Dollars in millions]

	Total expenditure [2]	OASDHI	Percent
1929	$3,921		
1940	8,795	$40.4	0.5
1950	23,508	784.1	3.3
1955	32,640	4,436.3	13.6
1960	52,293	11,032.3	21.1
1965	77,175	16,997.5	22.0
1970	145,856	36,835.4	25.3
1975	290,080	78,429.9	27.0
1979	430,280	131,719.4	30.6
1980	492,528	152,110.4	30.9
1981	550,324	180,425.0	32.8
1982	594,785	204,567.8	34.4
1983	643,437	224,709.2	34.9
1984	671,969	238,254.0	35.5
1985	730,399	260,468.7	35.7
1986	770,522	271,980.0	35.3

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[1] Expenditures include those from Federal, State and local revenues (general and special) and trust funds and other expenditures under public law.

[2] Includes expenditures for public education, health and medical programs, veteran's programs, public aid (including SSI and food stamps) as well as social insurance programs other than social security.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 3.A3.

TABLE 12.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME

[In millions]

Year	Total cash benefits	Cash benefits		Personal income [1]	Total (cash) benefits as a percent of personal income
		OASI	DI		
1937	$1	$1		$73,400	(2)
1938	10	10		67,600	(2)
1939	14	14		72,100	(2)
1940	35	35		77,600	(2)
1941	88	88		95,200	0.1
1942	131	131		122,400	.1
1943	166	166		150,700	.1
1944	209	207		164,500	.1
1945	274	274		170,000	.2
1946	378	378		177,600	.2
1947	466	466		190,200	.2
1948	556	556		209,200	.3
1949	667	667		206,400	.3
1950	961	961		228,100	.4
1951	1,885	1,885		256,500	.7
1952	2,194	2,194		273,800	.8
1953	3,006	3,006		290,500	1.0
1954	3,670	3,670		293,000	1.3
1955	4,968	4,968		314,200	1.6
1956	5,715	5,715		337,200	1.7
1957	7,404	7,347	$57	356,300	2.1
1958	8,576	8,327	249	367,100	2.3
1959	10,298	9,846	457	390,700	2.6
1960	11,245	10,677	568	409,400	2.7
1961	12,749	11,862	887	426,000	3.0
1962	14,461	13,356	1,105	453,200	3.2
1963	15,427	14,217	1,210	476,300	3.2
1964	16,223	14,914	1,309	510,200	3.2
1965	18,311	16,737	1,573	552,000	3.3
1966	20,048	18,267	1,781	600,800	3.3
1967	21,407	19,468	1,939	644,500	3.3
1968	24,936	22,642	2,294	707,200	3.5
1969	26,751	24,209	2,542	772,900	3.5
1970	31,863	28,796	3,067	831,800	3.8
1971	37,171	33,413	3,758	894,000	4.2
1972	41,595	37,122	4,473	981,600	4.2
1973	51,459	45,741	5,718	1,101,700	4.7
1974	58,521	51,618	6,903	1,210,100	4.8
1975	66,923	58,509	8,414	1,313,400	5.1
1976	75,665	65,699	9,966	1,451,400	5.2

TABLE 12.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME—Continued

[In millions]

Year	Total cash benefits	Cash benefits		Personal income [1]	Total (cash) benefits as a percent of personal income
		OASI	DI		
1977	84,576	73,113	11,463	1,607,500	5.3
1978	92,865	80,352	12,513	1,812,400	5.1
1979	104,264	90,556	13,708	2,034,000	5.1
1980	120,511	105,074	15,437	2,258,500	5.3
1981	140,994	123,795	17,199	2,520,900	5.6
1982	156,138	138,800	17,338	2,670,800	5.8
1983	167,032	149,502	17,530	2,836,400	5.9
1984	175,762	157,862	17,900	3,111,900	5.6
1985	186,196	167,360	18,836	3,314,500	5.6
1986	196,692	176,845	19,847	3,534,300	5.6
1987	204,156	183,644	20,512	3,746,500	5.4

[1] Data from "Survey of Current Business," table 2.1.

[2] Less than 0.05 percent.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, table 4.A4.

TABLE 13.—ESTIMATED COST OF OASDI AND HI SYSTEMS AS PERCENT OF GNP UNDER ALTERNATIVE II–B, 1988–2060

[In percent]

Calendar year	OASDI	HI	OASDI and HI
Alternative II–B:			
1988	4.70	1.15	5.84
1990	4.69	1.22	5.91
1995	4.57	1.39	5.97
2000	4.45	1.53	5.98
2005	4.39	1.64	6.03
2010	4.55	1.76	6.31
2015	5.01	1.91	6.92
2020	5.64	2.14	7.78
2025	6.19	2.41	8.60
2030	6.52	2.64	9.16
2035	6.61	2.77	9.38
2040	6.54	2.82	9.36
2045	6.48	2.83	9.31
2050	6.49	2.84	9.33
2055	6.52	2.84	9.36
2060	6.51	2.84	9.36
Summarized rates:			
25-year: 1988–2012	4.55	1.50	6.05
50-year: 1988–2037	5.23	1.91	7.13
75-year: 1988–2062	5.61	2.18	7.79

Source: 1988 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table F1.

TABLE 14.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–87

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1940	0.10	0.09	0.19	....	0.19
1941	.16	.11	.27	....	.27
1942	.17	.13	.30	....	.30
1943	.18	.14	.32	....	.32
1944	.20	.16	.36	....	.36
1945	.26	.22	.48	....	.48
1946	.36	.25	.61	....	.61
1947	.40	.25	.65	....	.65
1948	.46	.26	.72	....	.72
1949	.58	.31	.89	....	.89
1950	.79	.38	1.17	....	1.17
1951	1.18	.50	1.68	....	1.68
1952	1.28	.55	1.83	....	1.83

TABLE 14.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–87—Continued

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1953	1.71	.64	2.35	....	2.35
1954	2.12	.77	2.89	....	2.89
1955	2.52	.82	3.34	....	3.34
1956	2.72	.84	3.56	....	3.56
1957	3.32	.97	4.29	.03	4.32
1958	3.85	1.10	4.95	.15	5.10
1959	4.07	1.20	5.27	.24	5.51
1960	4.29	1.30	5.59	.30	5.89
1961	4.67	1.46	6.13	.47	6.60
1962	5.02	1.58	6.60	.56	7.16
1963	5.19	1.65	6.84	.59	7.43
1964	5.17	1.66	6.83	.62	7.45
1965	5.42	1.81	7.23	.70	7.93
1966	4.58	1.66	6.24	.64	6.88
1967	4.63	1.64	6.27	.65	6.92
1968	4.64	1.71	6.35	.67	7.03
1969	4.66	1.72	6.38	.70	7.08
1970	5.36	1.96	7.32	.81	8.12
1971	6.07	2.20	8.27	.97	9.23
1972	5.98	2.15	8.13	1.01	9.14
1973	6.21	2.38	8.59	1.09	9.69
1974	6.20	2.35	8.55	1.16	9.70
1975	6.77	2.52	9.29	1.36	10.65
1976	6.89	2.53	9.42	1.44	10.86
1977	6.93	2.53	9.46	1.50	10.97
1978	6.85	2.44	9.29	1.45	10.74
1979	6.57	2.31	8.88	1.35	10.23
1980	6.95	2.41	9.36	1.38	10.74
1981	7.45	2.52	9.97	1.39	11.36
1982	8.01	2.58	10.59	1.34	11.94
1983 [2]	7.84	2.43	10.27	1.22	11.50
1984 [2]	7.73	2.35	10.08	1.16	11.24
1985 [2]	7.67	2.32	9.99	1.14	11.13
1986 [2]	7.56	2.27	9.83	1.12	10.95
1987 [3]	8.01	2.40	10.41	1.18	11.59

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[1] These estimates are based on the assumption that total OASI expenditures are distributed between OAI and SI in the same proportions as benefit payments.

[2] Preliminary.

[3] Estimates based on the Alternative II–B assumptions of the 1988 Trustees Report.

Note: All numbers in this table are presented as percentages of taxable payroll and are based on data published in 1988 and earlier Trustees Reports.

Source: Office of the Actuary, Social Security Administration.

TABLE 15.—PAST AND FUTURE EARNINGS LEVELS, PRIMARY INSURANCE AMOUNTS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, UNDER PRESENT LAW, 1953–2040 [1]

Calendar year	Actual earnings in previous year			Sum of monthly PIA's in year of entitlement [2]						Replacement rates [3] (in percent)		
				Actual dollars			1988 constant dollars					
	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]
1953 [5]	1,560	2,973	3,600	714	912	1,020	3,098	3,957	4,425	45.8	30.7	28.3
1955 [5]	1,560	3,156	3,600	774	1,091	1,182	3,354	4,727	5,122	49.6	34.6	32.8
1960 [5]	2,080	3,856	4,800	936	1,284	1,428	3,676	5,043	5,608	45.0	33.3	29.8
1965 [5]	2,600	4,576	4,800	1,040	1,439	1,580	3,835	5,303	5,825	40.0	31.4	32.9
1970 [5]	3,328	5,894	7,800	1,421	2,021	2,278	4,251	6,046	6,814	42.7	34.3	29.2
1975 [5]	3,883	8,031	13,200	2,309	3,400	3,973	4,985	7,340	8,577	59.5	42.3	30.1
1980 [5]	6,032	11,479	22,900	3,859	5,862	7,437	5,436	8,258	10,476	64.0	51.1	32.5
1985	6,968	16,135	37,800	[6] 4,445	6,598	8,629	4,857	7,208	9,427	[6] 63.8	40.9	22.8
1988	6,968	18,427	43,800	4,960	7,543	10,097	4,960	7,543	10,097	71.2	40.9	23.1
1989	6,968	19,205	45,000	5,294	8,046	10,836	5,065	7,698	10,367	76.0	41.9	24.1
1990	7,341	20,232	48,000	5,679	8,659	11,720	5,208	7,940	10,747	77.4	42.8	24.4
2000	12,436	34,277	80,400	9,065	14,205	20,484	5,604	8,782	12,663	72.9	41.4	25.5
2010	21,042	57,997	135,900	14,425	24,035	36,957	6,025	10,038	15,435	68.6	41.4	27.2
2020	35,604	98,132	229,800	23,138	40,682	63,931	6,528	11,478	18,038	65.0	41.5	27.8
2030	60,243	166,041	388,800	37,436	68,827	108,160	7,136	13,119	20,616	62.1	41.5	27.8
2040	101,933	280,945	657,900	63,221	116,463	182,813	8,141	14,997	23,540	62.0	41.5	27.8

[1] For workers becoming entitled for January at age 65 with steady career earnings. [2] Sum rounded to nearest dollars.

[3] Sum of monthly PIA's in year of entitlement expressed as percent of earnings in year prior to entitlement. [4] Earnings equal to the social security taxable earnings base.

[5] PIA's and replacement rates for these workers are based on the pre-1977 benefit formula. [6] Based on special minimum PIA computation.

Source: Office of the Actuary, Social Security Administration.

Note: For those illustrative cases retiring at age 65 in 2010 and later, the "normal retirement age" is greater than 65 and, therefore, an actuarial-reduction factor will apply. Thus, showing the PIA's for such persons is somewhat inappropriate.

TABLE 16.—ILLUSTRATIVE REPLACEMENT RATES FOR MEN [1] WITH AVERAGE EARNINGS WHO RETIRED IN VARIOUS YEARS

[In percent]

Year of attainment of age	Retiring at age 62	Retiring at age 65
1972	27.4	35.3
1973	30.7	39.2
1974	30.0	37.8
1975	32.4	40.4
1976	33.2	42.1
1977	33.7	43.3
1978	34.6	45.0
1979	[2] 34.8	45.5
1980	[2] 33.1	47.1
1981	33.0	51.1
1982	32.6	46.6
1983	34.0	45.7
1984	34.2	42.7
1985	33.9	40.8
1986	34.4	41.1
1987	34.8	41.1
1988	[3] 34.3	[3] 41.4

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[1] Man attains the specified age at beginning of year and retires then. Figures for attainments of age 65 in 1978 and after are also applicable to women; for earlier years in the table, the figures for women are somewhat higher.

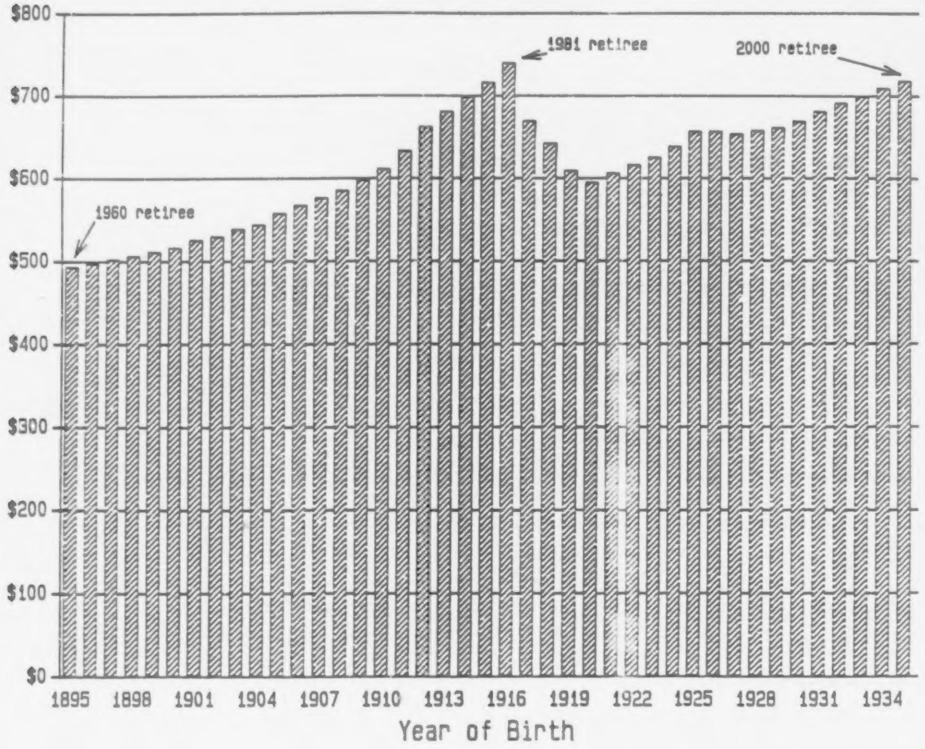
[2] Benefit is computed under the transitional-guarantee method.

[3] Figure for average wage for 1987 is from 1988 Trustees Report.

Source: The Social Security Benefit Notch: A Study: National Academy of Social Insurance.

CHART 1.—CURRENT MONTHLY SOCIAL SECURITY BENEFITS FOR PERSONS BORN FROM 1895–1935 WHO HAD AVERAGE EARNINGS HISTORIES AND RETIRED AT AGE 65

(Benefit levels as of Jan. 1988)



Benefit levels for 1988 & later retirees
are projected in constant 1988 dollars

Source: Congressional Research Service, March 1988

TABLE 17.—ILLUSTRATIONS OF CURRENT SOCIAL SECURITY BENEFIT LEVELS FOR PERSONS BORN FROM 1895 TO 1935 [1]

	Actual benefit levels in 1988 (or projected in 1988 dollars)	Benefit levels, if initial benefits had risen at the same rate as wages after 1972 [2]	Difference
Retirement in January of:			
1960	494	494	....
1961	498	498	....
1962	503	503	....
1963	507	507	....
1964	512	512	....
1965	517	517	....
1966	526	526	....
1967	530	530	....
1968	539	539	....
1969	544	544	....
1970	558	558	....
1971	568	568	....
1972	577	577	....
1973	586	586	....
1974	599	624	−25
1975	612	594	+18
1976	634	592	+42
1977	663	594	+69
1978	681	594	+87
1979	699	603	+96
1980	716	597	+119
1981	740	569	+171
1982	670	563	+107
1983	643	554	+89
1984	610	561	+49
1985	596	575	+21
1986	607	581	+26
1987	617	590	+27
1988	626	593	+33
	Projected (in constant 1988 dollars)		
1989	639	595	+44
1990	657	600	+57
1991	657	605	+52
1992	654	614	+40
1993	658	623	+35
1994	662	631	+31
1995	670	639	+31
1996	682	647	+35
1997	692	656	+36
1998	700	666	+34

TABLE 17.—ILLUSTRATIONS OF CURRENT SOCIAL SECURITY BENEFIT LEVELS FOR PERSONS BORN FROM 1895 TO 1935 [1]—Continued

	Actual benefit levels in 1988 (or projected in 1988 dollars)	Benefit levels, if initial benefits had risen at the same rate as wages after 1972 [2]	Difference
1999	710	676	+34
2000	719	685	+34

[1] For full-career worker who always earned the average wage. Future benefit levels based on the Intermediate II-B assumptions of the 1987 Trustee's Report.

[2] The benefits for 1966–1988 also reflect COLAs that would have been paid after retirement and through January 1988.

Source: Congressional Research Service (CRS), March 23, 1988.

TABLE 18.—COMPARISON OF ULTIMATE REPLACEMENT RATES FOR SINGLE WORKERS RETIRING AT NORMAL RETIREMENT AGE UNDER PRIOR SOCIAL SECURITY ACTS AND PRESENT LAW [1]

[In percent]

Act	Earnings level [2]		
	Low	Average	Maximum
1935: [3]			
Minimum coverage	30.0	20.0	10.0
Maximum coverage	73.0	58.0	34.0
1939: [3]			
Minimum coverage	41.2	28.8	16.5
Maximum coverage	57.2	40.0	22.9
1950	44.7	30.0	26.7
1952	45.2	30.3	28.3
1954	47.6	34.0	31.0
1958	46.7	34.2	31.8
1965	44.2	33.5	30.5
1967	46.9	36.3	33.5
1969	51.7	40.3	38.6
1971	53.5	43.0	39.4
1972	62.7	51.2	42.7
1975	70.2	55.9	42.6
1977 [4]	52.4	40.8	27.4
1983 (Present law)	58.7	40.7	27.1

[1] Replacement rate is defined as the ratio of the annual rate of benefit payment as of the date of retirement at the beginning of the year to the annual earnings in the previous year. The ultimate replacement rate is the rate that will apply to workers retiring in the future when the provisions of the various acts are fully effective. Normal retirement age is 65, except under 1983 law when it was increased to 67.

[2] The annual average earnings level is assumed to be $1,000 for the computations under the 1935 and 1939 Acts (because wages were relatively stable in the late 1930's), and equal to average earnings in the economy for subsequent computations. The low earnings level is approximately 50 percent of the average level, and the maximum is equal to the applicable maximum taxable wage base.

[3] The minimum coverage was 5 years for the 1935 Act and 3 years for the 1939 Act; the length of coverage for steady worker generally has no effect on benefits under subsequent Acts. The maximum coverage was taken as 43 years (from age 22 to age 65) for both the 1935 and 1939 Acts (actually, 43 years was the maximum creditable under the maximum-earnings case under the 1935 Act).

[4] Ultimate replacement rates shown taken from Table 3.5 in "Social Security" by Robert J. Myers.

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The payroll tax is imposed on covered earnings up to a specific dollar amount. Workers who earn more than the maximum taxable earnings base do not pay FICA (Federal Insurance Contributions Act) or SECA (Self-Employed Contributions Act) tax on their earnings above the base.

The earnings base has increased numerous times from 1937 through 1988. A majority of these increases have been provided through specific legislative amendments. However, the earnings base is currently automatically adjusted annually according to the increase in average wages in the economy, but only if a cost-of-living benefit increase becomes effective for the previous December.

The tax rates have also been changed many times since 1937. Under the original act, the OASI tax rate was scheduled to gradually increase from 1 percent in 1937 to 3 percent in 1949. These increases were delayed several times during the 1940's and the tax rate did not increase to 1.5 percent until 1950. The current 1989 OASI tax rate is 5.53 percent. The tax for the disability insurance program was 0.25 percent in 1957 and is 0.53 percent in 1989. The hospital insurance (Medicare part A) rate was 0.35 percent in 1966 and is currently 1.45 percent. (For 1984 only, employees were allowed a credit of 0.3 percent of their taxable wages against their FICA tax liability, reducing the effective tax rate to 6.7 percent.)

Beginning in 1984, the OASDHI rates for self-employed persons is equal to the combined employer-employee OASDHI rate. For 1984, self-employed persons were allowed a credit (comparable to the credit allowed employers against the FICA tax) against SECA tax equal to 2.7 percent of net self-employment income. For 1985, the amount of the credit was 2.3 percent. For 1986 through 1989, the credit is 2.0 percent. The SECA tax credit may directly be taken into account in computing SECA liability for a taxable year and estimated tax payments for that year.

Effective in 1990 and thereafter, the credit would be replaced with a system designed to achieve parity between employees and the self-employed. Under this system:

1. The base of the self-employment tax will be adjusted downward to reflect the fact that employees do not pay FICA tax on the value of the employer's FICA tax.
2. A deduction will be allowed for income tax purposes, for half of SECA liability, to allow for the fact that employees do not pay income tax on the value of the employer's FICA tax.

The following four tables detail the annual taxable earnings base, the three individual and combined tax rates and the annual maximum contribution for both employees, employers, and self-employed persons:

TABLE 19.—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: EMPLOYERS AND EMPLOYEES, 1937–2000 AND THEREAFTER

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000	1	1		
1950	3,000	1.5	1.5		
1951	3,600	1.5	1.5		
1954	3,600	2	2		
1955	4,200	2	2		
1957	4,200	2.25	2	0.25	
1959	4,800	2.5	2.25	.25	
1960	4,800	3	2.75	.25	
1962	4,800	3.125	2.875	.25	
1963	4,800	3.625	3.375	.25	
1966	6,600	4.2	3.5	.35	0.35
1967	6,600	4.4	3.55	.35	.5
1968	7,800	4.4	3.325	.475	.6
1969	7,800	4.8	3.725	.475	.6
1970	7,800	4.8	3.65	.55	.6
1971	7,800	5.2	4.05	.55	.6
1972	9,000	5.2	4.05	.55	.6
1973	10,800	5.85	4.3	.55	1.0
1974	13,200	5.85	4.375	.575	.9
1975	14,100	5.85	4.375	.575	.9
1976	15,300	5.85	4.375	.575	.9
1977	16,500	5.85	4.375	.575	.9
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1980	25,900	6.13	4.52	.56	1.05
1981	29,700	6.65	4.70	.65	1.3
1982	32,400	6.7	4.575	.825	1.3
1983	35,700	6.7	4.775	.625	1.3
1984 [1]	37,800	7.0	5.2	.5	1.3
1985	39,600	7.05	5.2	.5	1.35
1986	42,000	7.15	5.2	.5	1.45
1987	43,800	7.15	5.2	.5	1.45
1988	45,000	7.51	5.53	.53	1.45
1989	48,000	7.51	5.53	.53	1.45
1990–1999	([2])	7.65	5.6	.60	1.45
2000 and thereafter	([2])	7.65	5.49	.71	1.45

[1] Tax credits apply for 1984.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 2.A1.

TABLE 20.—MAXIMUM ANNUAL CONTRIBUTION: EMPLOYEE, 1937–89

Beginning—	Total	OASI	DI	HI
1937	$30.00	$30.00		
1950	45.00	45.00		
1951	54.00	54.00		
1954	72.00	72.00		
1955	84.00	84.00		
1957	94.50	84.00	$10.50	
1959	120.00	108.00	12.00	
1960	144.00	132.00	12.00	
1962	150.00	138.00	12.00	
1963	174.00	162.00	12.00	
1966	277.20	231.00	23.10	$23.10
1967	290.40	234.30	23.10	33.00
1968	343.20	259.35	37.05	46.80
1969	374.40	290.55	37.05	46.80
1970	374.40	284.70	42.90	46.80
1971	405.60	315.90	42.90	46.80
1972	468.00	364.50	49.50	54.00
1973	631.80	464.40	59.40	108.00
1974	772.20	577.50	75.90	118.80
1975	824.85	618.88	81.08	126.90
1976	895.05	669.38	87.98	137.70
1977	965.25	721.88	94.88	148.50
1978	1,070.85	756.68	137.18	177.00
1979	1,403.77	991.57	171.75	240.45
1980	1,587.67	1,170.68	145.04	271.95
1981	1,975.05	1,395.90	193.05	386.10
1982	2,170.80	1,482.30	267.30	421.20
1983	2,391.90	1,704.68	223.12	464.10
1984 [1]	2,646.00	1,965.60	189.00	491.40
1985	2,791.80	2,059.20	198.00	534.60
1986	3,003.00	2,184.00	210.00	609.00
1987	3,131.70	2,277.60	219.00	635.10
1988	3,379.50	2,488.50	238.50	652.50
1989	3,604.80	2,654.40	254.40	696.00
Total cumulative employee contributions, 1955–1989 [1]	37,216.18	27,493.42	3,206.16	6,516.60

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[1] Includes tax credit.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 2.A3.

TABLE 21—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: SELF-EMPLOYED, 1937–2000 AND THEREAFTER

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000				
1950	3,000				
1951	3,600	2.25	2.25		
1954	3,600	3	3		
1955	4,200	3	3		
1957	4,200	3.375	3	0.375	
1959	4,800	3.75	3.375	.375	
1960	4,800	4.5	4.125	.375	
1962	4,800	4.7	4.325	.375	
1963	4,800	5.4	5.025	.375	
1966	6,600	6.15	5.275	.525	0.35
1967	6,600	6.4	5.375	.525	.5
1968	7,800	6.4	5.0875	.7125	.6
1969	7,800	6.9	5.5875	.7125	.6
1970	7,800	6.9	5.475	.825	.6
1971	7,800	7.5	6.075	.825	.6
1972	9,000	7.5	6.075	.825	.6
1973	10,800	8	6.205	.795	1.0
1974	13,200	7.9	6.185	.815	.9
1975	14,100	7.9	6.185	.815	.9
1976	15,300	7.9	6.185	.815	.9
1977	16,500	7.9	6.185	.815	.9
1978	17,700	8.10	6.01	1.09	1.00
1979	22,900	8.10	6.01	1.04	1.05
1980	25,900	8.10	6.2725	.7775	1.05
1981	29,700	9.30	7.025	.975	1.30
1982	32,400	9.35	6.8125	1.2375	1.30
1983	35,700	9.35	7.1125	.9375	1.30
1984 [1]	37,800	14.0	10.4	1.0	2.6
1985 [1]	39,600	14.1	10.4	1.0	2.7
1986 [1]	42,000	14.3	10.4	1.0	2.9
1987 [1]	43,800	14.3	10.4	1.0	2.9
1988 [1]	45,000	15.02	11.06	1.06	2.9
1989 [1]	48,000	15.02	11.06	1.06	2.9
1990–1999	(2)	15.3	11.2	1.2	2.9
2000 and thereafter	(2)	15.3	10.98	1.42	2.9

---

[1] Tax credits apply from 1984 through 1989.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 2.A1.

TABLE 22.—MAXIMUM ANNUAL CONTRIBUTION: SELF-EMPLOYED, 1937–89

Beginning—	Total	OASI	DI	HI
1937				
1950				
1951	$81.00	$81.00		
1954	108.00	108.00		
1955	126.00	126.00		
1957	141.75	126.00	$15.75	
1959	180.00	162.00	18.00	
1960	216.00	198.00	18.00	
1962	225.60	207.60	18.00	
1963	259.20	241.20	18.00	
1966	405.90	348.15	34.65	$23.10
1967	422.40	354.75	34.65	33.00
1968	499.20	396.82	55.57	46.80
1969	538.20	435.82	55.57	46.80
1970	538.20	427.05	64.35	46.80
1971	585.00	473.85	64.35	46.80
1972	675.00	546.75	74.25	54.00
1973	864.00	670.14	85.86	108.00
1974	1,042.80	816.42	107.58	118.80
1975	1,113.90	872.08	114.91	126.90
1976	1,208.70	946.30	124.69	137.70
1977	1,303.50	1,020.52	134.47	148.50
1978	1,433.70	1,063.77	192.93	177.00
1979	1,854.90	1,376.29	238.16	240.45
1980	2,097.90	1,624.58	201.37	271.95
1981	2,762.10	2,086.43	289.57	386.10
1982	3,029.40	2,207.25	400.95	421.20
1983	3,337.95	2,539.16	334.69	464.10
1984 [1]	5,292.00	3,931.20	378.00	982.80
1985 [1]	5,583.60	4,118.40	396.00	1,069.20
1986 [1]	6,006.00	4,368.00	420.00	1,218.00
1987 [1]	6,263.40	4,555.20	438.00	1,270.20
1988 [1]	6,759.00	4,977.00	477.00	1,305.00
1989 [1]	7,209.60	5,308.80	508.80	1,392.00
Cumulative contributions, 1955–1989 [1]	62,977.05	47,457.96	5,383.89	10,135.20

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[1] Includes tax credit.

Source: Social Security Bulletin, Annual Statistical Supplement, 1988, Table 2.A3.

TABLE 23.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE (HI) TRUST FUNDS

Calendar year	Assets at end of year in billions dollars				Assets at beginning of year as a percent of outgo during year	
	OASI	DI	HI	Combined	OASI	OASDI
1937	0.77			0.77		
1938	1.13			1.13	7,660	
1939	1.72			1.72	8,086	
1940	2.03			2.03	2,781	
1941	2.76			2.76	1,782	
1942	3.69			3.69	1,737	
1943	4.82			4.82	1,891	
1944	6.01			6.01	2,025	
1945	7.12			7.12	1,975	
1946	8.15			8.15	1,704	
1947	9.36			9.36	1,592	
1948	10.72			10.72	1,542	
1949	11.82			11.82	1,487	
1950	13.72			13.72	1,156	
1951	15.54			15.54	698	
1952	17.44			17.44	681	
1953	18.71			18.71	564	
1954	20.58			20.58	500	
1955	21.66			21.66	405	
1956	22.52			22.52	371	
1957	22.39	0.65		23.04	300	
1958	21.86	1.38		23.24	259	259
1959	20.14	1.83		21.97	212	215
1960	20.32	2.29		22.61	180	186
1961	19.73	2.44		22.16	163	169
1962	18.34	2.37		20.71	141	146
1963	18.48	2.24		20.72	123	128
1964	19.13	2.05		21.17	118	122
1965	18.24	1.61		19.84	109	110
1966	20.57	1.74	0.94	23.25	96	95
1967	24.22	2.03	1.07	27.32	101	99
1968	25.70	3.03	2.08	30.81	103	101
1969	30.08	4.10	2.51	36.69	102	103
1970	32.45	5.61	3.20	41.27	101	103
1971	33.79	6.65	3.03	43.47	94	99
1972	35.32	7.46	2.94	45.71	88	93

TABLE 23.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE (HI) TRUST FUNDS—Continued

Calendar year	Assets at end of year in billions dollars				Assets at beginning of year as a percent of outgo during year	
	UASI	DI	HI	Combined	OASI	OASDI
1973	36.49	7.93	6.47	50.88	75	80
1974	37.78	8.11	9.12	55.01	68	73
1975	36.99	7.35	10.52	54.86	63	66
1976	35.39	5.75	10.61	51.74	54	57
1977	32.49	3.37	10.44	46.30	47	47
1978	27.52	4.23	11.48	43.22	39	37
1979	24.66	5.63	13.23	43.52	30	30
1980	22.82	3.63	13.75	40.20	23	25
1981	21.49	3.05	18.75	43.29	18	18
1982	[1] 22.09	[1] 2.69	[1] 8.16	32.94	[1] 15	[1] 15
1983	19.67	5.20	12.86	37.73	14	14
1984	27.12	3.96	15.69	46.77	12	14
1985	[1] 35.84	[1] 6.32	[1] 20.50	62.66	[1] 16	[1] 16
1986	[1] 39.08	[1] 7.78	[1] 39.96	86.82	[1] 20	[1] 21
1987	62.15	6.66	53.73	122.54	21	22
1988 [2]					31	31

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[1] In 1982, $17,519 million was lent to the OASI trust fund from the DI and HI trust funds. Repayments were made to the DI and HI trust funds in 1985 and 1986. The values presented here include these transfers.

[2] Preliminary.

Source: Social Security Bulletin, Annual Statistical Supplement, 1987 and 1988 Annual Reports of the Board of Trustees; and committee staff calculations.

Section 4. Medicare

Medicare, authorized under title XVIII of the Social Security Act, is a nationwide health insurance program for the aged and certain disabled persons. It consists of three parts: the hospital insurance (part A) program, the supplementary medical insurance (part B) program, and the catastrophic drug insurance program (CDI).

ELIGIBILITY

Most Americans age 65 or older are automatically entitled to protection under part A. Persons age 65 or older who are not "fully insured" (i.e., not eligible for monthly Social Security or railroad retirement cash benefits) may obtain coverage, providing they pay the full actuarial cost of such coverage. The monthly premium, as of January 1, 1989, is $156. Also eligible, after a 2-year waiting period, are people under age 65 who are receiving monthly Social Security benefits on the basis of disability and disabled railroad retirement system annuitants. (Dependents of the disabled are not eligible.) Most people who need a kidney transplant or renal dialysis because of chronic kidney disease are, under certain circumstances, entitled to benefits under part A regardless of age.

Part B and the catastrophic drug insurance program of Medicare are voluntary. The two programs are linked. All persons age 65 or older (whether "insured" or not) may elect to enroll in both the supplementary medical insurance program and the catastrophic drug insurance program by paying the monthly premium. One must elect coverage in both programs (parts B and CDI). Enrollees may not elect to enroll in only one program. Persons eligible for part A by virtue of disability or chronic kidney disease may also elect to enroll in part B. The premium, as of January 1, 1989, is $31.90.

NUMBER OF BENEFICIARIES

In fiscal year 1989, approximately 29.4 million aged and 3.2 million disabled will have protection under part A. Of those, it is estimated that 6.7 million aged and 0.8 million disabled will actually receive reimbursed services. In fiscal year 1989, 29.2 million aged and 2.9 million disabled will be enrolled in part B. Over 23.6 million of the aged and 2.3 million of the disabled will receive part B reimbursed services.

TABLE 1.—NUMBER OF AGED AND DISABLED ELIGIBLE ENROLLEES AND BENEFICIARIES, AND AVERAGE AND TOTAL MEDICARE BENEFIT PAYMENTS

[Persons in thousands; by fiscal year]

	1977 (actual)	1980 (actual)	1985 (actual)	1986 (actual)	1987 (estimate)	1988 (estimate)	1989 [1] (estimate)	1990 [1] (estimate)	Projected average annual growth	
									1977–90 (percent)	1985–90 (percent)
Part A:										
Persons with hospital insurance protection (monthly average):										
Aged	22,941	24,571	27,203	27,831	28,222	28,847	29,423	29,966	2.1	2.0
Disabled	2,571	2,968	2,906	2,941	2,994	3,039	3,153	3,262	1.8	2.3
Beneficiaries receiving reimbursed services:										
Aged	5,370	5,940	6,430	6,370	6,390	6,540	6,740	6,950	2.0	1.6
Disabled	590	720	745	740	750	765	800	840	2.8	2.4
Average annual benefit per person enrolled: [2] [3]										
Aged	$579	$853	$1,556	$1,558	$1,571	$1,601	$1,727	$1,866	9.4	3.7
Disabled	$627	$951	$1,856	$1,870	$1,831	$1,867	$1,994	$2,196	10.1	3.4
Part B:										
Persons enrolled (average):										
Aged	22,737	24,422	27,110	27,607	28,136	28,646	29,204	29,758	2.1	1.9
Disabled	2,310	2,698	2,671	2,692	2,773	2,837	2,922	3,020	2.1	2.5
Beneficiaries receiving reimbursed services:										
Aged	13,256	16,119	19,350	21,119	22,220	22,924	23,604	24,208	4.7	4.6
Disabled	1,203	1,668	1,877	1,973	2,137	2,203	2,283	2,373	5.4	4.8
Average annual benefit per person enrolled: [2] [4]										
Aged	$220	$347	$704	$799	$937	$1,047	$1,184	$1,389	15.2	14.6
Disabled	$373	$615	$1,021	$1,151	$1,292	$1,299	$1,426	$1,591	11.8	9.3

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[1] Represents current law. Includes regulations but not legislative proposals.

[2] Does not include administrative cost.

[3] Includes Part A Catastrophic benefits beginning in fiscal year 1989.

[4] Includes Part B Catastrophic benefits beginning in fiscal year 1990.

Source: Health Care Financing Administration, Division of Budget.

COVERAGE

Most individuals establish entitlement to part A on the basis of work in employment covered by either the Social Security or railroad retirement systems. Certain employment is excluded from Social Security (including part A hospital insurance) taxation.

The Tax Equity and Fiscal Responsibility Act of 1982 extended the hospital insurance tax to Federal employment effective with respect to wages paid on or after January 1, 1983. Beginning January 1, 1983, Federal employment is used to determine eligibility for protection under Medicare part A. A transitional provision allows individuals who are in the employ of the Federal Government both before and during January 1, 1983, to have their prior Federal employment considered as employment for purposes of providing Medicare coverage. Newly hired employees of State and local governments hired after March 31, 1986, are liable for the HI tax.

BENEFITS

This section describes current law. For a comparison of prior and current law, see table 37 and accompanying text.

Part A of Medicare will pay for:

1. Inpatient hospital care.—All reasonable expenses without limit for acute-care hospital coverage. Medicare will pay all hospital inpatient costs above an annual deductible amount ($560 for 1989).

2. Skilled nursing facility (SNF) care. The limit on SNF stays is 150 days a year, and no prior hospital stay is required. Coinsurance payments are required only for the first 8 days each year, at 20 percent of average SNF costs per day ($25.50 for 1989).

3. Home health care.—An unlimited number of medically necessary home health visits by nurses, therapists, and other health workers for a homebound individual.

Effective January 1990, the current requirement that limits coverage for home health care to intermittent visits will be relaxed, so that enrollees may receive up to 38 consecutive days of care, 7 days a week. Current interpretation of the requirement that home health care be intermittent limits the frequency of visits to no more than 5 days a week, for up to 3 consecutive weeks.

4. Hospice care.—Hospice care services provided to terminally ill Medicare beneficiaries with a life expectancy of 6 months or less. The 210-day lifetime limit on hospice benefits was eliminated, although a cost limit will remain. There are small coinsurance requirements for drug and inhome respite expenses.

Part B of Medicare pays 80 percent of the reasonable charges (or of reasonable cost) for covered services in excess of an annual deductible ($75). Services covered include the following:

1. Doctor's services.—Including surgery, consultation, and home, office and institutional visits. Certain limitations apply for services rendered by dentists, podiatrists and chiropractors and for the treatment of mental illness.

2. Other medical and health services.—Laboratory and other diagnostic tests, X-ray and other radiation therapy, outpatient services at a hospital, rural health clinic services, home dialysis supplies and equipment, artificial devices (other than dental), physical and speech therapy, and ambulance services.

3. Home health services.—Unlimited number of medically necessary home health visits for persons not covered under part A. The 20 percent coinsurance and $75 deductible do not apply for such benefits.

Beginning in January of 1990, SMI benefits will be expanded as follows:

SMI Copayment Cap.—Each enrollee's liability for SMI copayments will be capped ($1,370 in 1990). The cap will be adjusted each year to keep the proportion of enrollees affected constant at 7 percent.

Mammography.—Coverage will be expanded to include screening mammography for women, subject to a maximum payment per screening of $50 in 1990 (indexed in future years), and subject to the usual copayment requirements.

Respite Care.—Once incurring sufficient costs to receive benefits under either the SMI copayment cap or the new drug provisions (explained below), enrollees will be eligible for a respite benefit. Under this benefit, Medicare will pay 80 percent of reasonable costs for up to 80 hours a year of inhome personal services, to give homebound enrollees' usual caretakers a respite.

4. Catastrophic drug insurance.—In addition, a new Catastrophic Drug Insurance (CDI) program will be phased in under Part B. Effective January 1990:

Limited Drug Benefits.—Coverage will be provided for drugs administered intravenously at home and for immunosuppressive drugs after the first year following a transplant, subject to a deductible amount of $550. Coinsurance of 20 percent will be required on drugs administered intravenously, while coinsurance will initially be 50 percent for newly covered immunosuppressive drugs. Medicare already covers 80 percent of the costs of immunosuppressive drugs in the first year following an organ transplant.

Effective January 1991:

Full Drug Benefits. Coverage will include all outpatient prescription drugs and insulin, subject to a deductible amount ($600 in 1991) that will be adjusted each year to keep the proportion of enrollees affected constant at 16.8 percent. Enrollees' coinsurance requirements will be 50 percent of reasonable charges above the deductible in 1991, 40 percent in 1992, and 20 percent in 1993 and subsequent years.

For reimbursement under the drug program, there are two payment limits. For a multiple source drug (defined as a drug for which there are two or more products rated as therapeutically equivalent), the payment (subject to the coinsurance) is the lowest of the actual charge or the sum of the unweighted median of average wholesale prices (AWPs), plus an administrative allowance. AWPs would be updated twice a year based on published sources or a survey conducted by the Secretary of Health and Human Services of direct sellers, wholesalers, or pharmacists. For a single-source drug, the payment (subject to the coinsurance) is the lowest of the pharmacy's actual charge, the 90th percentile of pharmacy charges (beginning in 1992), or the average wholesale price plus an administrative allowance.

AWPS would be updated twice a year based on the Secretary's survey, except that the Secretary could use published sources for low volume drugs. Payment for a multiple source drug could be made at the single source amount only if it has a restrictive prescription, i.e., the physician has indicated in writing on the prescription (or by written confirmation within 30 days of a telephone prescription) that the particular brand must be dispensed.

The administrative allowance is $4.50 for participating pharmacies and $2.50 for nonparticipating pharmacies except that the Secretary could lower the amount for mail-service pharmacies.

The Secretary is required to report to the Congress on changes in drug prices and use and gives the Secretary, under certain circumstances, limited authority to implement special cost control measures in 1993 and 1994.

Table 4 illustrates the deductible, coinsurance and premium amounts for both part A and part B services from the inception of Medicare.

TABLE 2.—BENEFIT PAYMENTS BY SERVICE UNDER PART A AND PART B, FISCAL YEARS 1975, 1980, 1985, AND 1990

[Dollars in millions]

	1975		1980 percent	1985 percent	1990 (est.) [1]		Projected average annual growth 1975–90
	Amount	Percent			Percent	Amount	
Part A							
For inpatient hospital services	$9,947	70.5	67.4	64.8	53.7	$58,620	12.6
For skilled nursing facility services	273	1.9	1.1	0.8	1.0	1,102	9.7
For home health services	133	0.9	1.6	3.0	2.9	3,187	23.6
For hospice services	0	0.0	0.0	0.0	0.2	160	NA
Total benefit payments	10,353	73.3	70.1	68.6	57.8	63,069	12.8
Part B							
For physician services	3,067	21.7	23.0	24.2	28.6	31,275	16.7
For outpatient services	530	3.8	5.4	5.6	9.3	10,190	21.8
For other medical and health services	168	1.2	1.4	1.6	4.3	4,680	24.8
Total benefit payments	3,765	26.7	29.9	31.4	42.2	46,145	18.2
Total	14,118	100.0	100.0	100.0	100.0	109,214	14.6

[1] Represents projections of current law. Includes Administration regulations but not the legislative proposals. Also includes catastrophic benefits.

Source: Health Care Financing Administration.

TABLE 3.—BENEFIT PAYMENTS BY SERVICE UNDER MEDICARE PART A AND PART B, FISCAL YEARS 1975 THROUGH 1990

[In millions of dollars]

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 [1]	1990 [1]
Part A																
For inpatient hospital services	9,947	11,742	14,265	16,684	19,067	22,842	27,744	32,729	36,076	39,080	45,017	46,042	46,701	48,597	53,259	58,620
For skilled nursing facility services	273	308	351	354	364	387	424	454	515	535	567	568	592	627	872	1,102
For home health service	133	217	289	361	441	547	726	1,160	1,510	1,844	2,111	2,222	2,457	2,548	2,849	3,187
For hospice services	0	0	0	0	0	0	0	0	0	2	15	35	63	90	120	160
Total benefit payments	10,353	12,267	14,905	17,399	19,872	23,776	28,894	34,343	38,101	41,461	47,710	48,867	49,813	51,862	57,100	63,069
Part B																
For physician services	2,874	3,438	4,286	4,953	5,948	7,283	8,860	10,649	12,890	14,582	16,224	18,553	21,921	23,838	26,744	31,275
For radiology and pathology services	193	251	313	373	449	531	654	743	609	615	565	(2)	(2)	(2)	(2)	(2)
For outpatient service	530	745	988	1,230	1,496	1,847	2,248	2,916	3,346	3,533	3,903	4,925	5,782	6,839	8,292	10,190
For other medical and health services	168	238	280	296	366	483	583	498	642	743	1,116	1,691	2,234	3,000	3,708	4,680
Total benefit payments	3,765	4,672	5,867	6,852	8,259	10,144	12,345	14,806	17,487	19,473	21,808	25,169	29,937	33,677	38,744	46,145
Total	14,118	16,939	20,772	24,251	28,131	33,920	41,239	49,149	55,588	60,934	69,518	74,036	79,750	85,539	95,844	109,214

[1] Represents estimates of current law. Includes regulations but not legislative proposals. Includes Catastrophic benefits, beginning in FY 1989 for Part A and in FY 1990 for Part B.

[2] Not available. Physician services for FY 1986 through FY 1990 include radiology and pathology services.

Source: Health Care Financing Administration, Division of Budget.

TABLE 4.—HISTORICAL AND PROJECTED AMOUNTS OF PART A (HOSPITAL INSURANCE) AND PART B (SMI) DEDUCTIBLE, COINSURANCE AND PREMIUMS [1]

For benefit periods beginning in calendar year	Inpatient hospital [2]			Skilled nursing facility 21st thru 100th day coinsurance per day [5]	HI monthy premium [6]		SMI deductible	SMI premium		Out-of-pocket limit	CDI deductible
	First 60 days deductible	61st thru 90th day coinsurance per day [3]	60 lifetime reserve days (non-renewable) coinsurance per day [4]		Effective date	Amount		Effective date	Amount [10]		
1966	$40	$10	(7)	(7)			$50	7/66	$3.00		
1967	40	10	(7)	$5.00			50		3.00		
1968	40	10	$20	5.00			50	4/68	4.00		
1969	44	11	22	5.50			50		4.00		
1970	52	13	26	6.50			50	7/70	5.30		
1971	60	15	30	7.50			50	7/71	5.60		
1972	68	17	34	8.50			50	7/72	5.80		
1973	72	18	36	9.00	7/73	$33	60	[8] 9/73	6.30		
1974	84	21	42	10.50	7/74	36	60	7/74	6.70		
1975	92	23	46	11.50	7/75	40	60		6.70		
1976	104	26	52	13.00	7/76	45	60	7/76	7.20		
1977	124	31	62	15.50	7/77	54	60	7/77	7.70		
1978	144	36	72	18.00	7/78	63	60	7/78	8.20		
1979	160	40	80	20.00	7/79	69	60	7/79	8.70		
1980	180	45	90	22.50	7/80	78	60	7/80	9.60		
1981	204	51	102	25.50	7/81	89	60	7/81	11.00		
1982	260	65	130	32.50	7/82	113	75	7/82	12.20		

TABLE 4.—HISTORICAL AND PROJECTED AMOUNTS OF PART A (HOSPITAL INSURANCE) AND PART B (SMI) DEDUCTIBLE, COINSURANCE AND PREMIUMS [1]—Continued

For benefit periods beginning in calendar year	Inpatient hospital [2]			Skilled nursing facility 21st thru 100th day coinsurance per day [5]	HI monthy premium [6]		SMI deductible	SMI premium			CDI deductible
	First 60 days deductible	61st thru 90th day coinsurance per day [3]	60 lifetime reserve days (non-renewable) coinsurance per day [4]		Effective date	Amount		Effective date	Amount [10]	Out-of-pocket limit	
1983	304	76	152	38.00		113	75		12.20		
1984	356	89	178	44.50	1/84	155	75	1/84	14.60		
1985	400	100	200	50.00	1/85	174	75	1/85	15.50		
1986	492	123	246	61.50	1/86	214	75	1/86	15.50		
1987	520	130	260	65.00	1/87	226	75	1/87	17.90		
1988	540	135	270	67.50	1/88	234	75	1/88	24.80		
1989 [9]	560	NA	NA	25.50	1/89	156	75	1/89	31.90		
1990 [9]	588	NA	NA	27.00	1/90	165	75	1/90	33.90	1,370	550

1991 [9]	620	NA	NA	28.50	1/91	177	75	1/91	37.80		600
1992 [9]	652	NA	NA	30.00	1/92	189	75	1/92	41.10		652
1993 [9]	684	NA	NA	31.50	1/93	201	75	1/93	43.60		
1994 [9]	718	NA	NA	33.00	1/94	214	75	1/94	45.80		

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[1] For services furnished on or after January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible for the year in which the services were furnished. For services furnished prior to January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible applicable for the year in which the individual's benefit period began.

[2] For care in psychiatric hospital—190 day lifetime limit.

[3] Always equal to ¼ of inpatient hospital deductible through 1988, then eliminated.

[4] Always equal to ½ of inpatient hospital deductible through 1988, then eliminated.

[5] Always equal to ⅛ of inpatient hospital deductible through 1988, then 20 percent of Medicare reasonable average cost per day.

[6] Not applicable prior to July 1973. Applies to individuals who are not fully insured.

[7] Not covered.

[8] For August 1973 the premium was $6.10.

[9] Administration projections under current law using fiscal year 1990 budget assumptions.

[10] CBO projections, for 1989 and on, the premium includes the SMI flat catastrophic and drug premiums.

Note: In addition to the deductible and coinsurance amounts shown in the table, the first 3 pints of blood are not reimbursed by Medicare. Currently there is no deductible or coinsurance on home health benefits. From January 1973 to June 30, 1982, there was a $60 annual deductible and prior to July 1, 1981, benefits were limited to 100 visits per benefit period under part A and 100 visits per calendar year under part B. Special limits apply to certain benefits: (1) Outpatient physician services for mental illness: 50 percent of approved charges; up to a maximum of $250 in benefits per year; (2) Physical therapy services furnished by physical therapists in independent practice: Maximum annual approved charges July 1, 1973, through December 31, 1981, $80 per year; January 1, 1982 through December 31, 1982, $400 per year, and January 1, 1983 and thereafter, $500 per year.

Source: Health Care Financing Administration, Office of the Actuary, Office of Medicare Cost Estimates.

ADMINISTRATION

Responsibility for administration of the Medicare program has been delegated by the Secretary of Health and Human Services to the Administrator of the Health Care Financing Administration (HCFA). Much of the day-to-day operational work of the program is performed by "intermediaries" and "carriers" which have responsibility for reviewing claims for benefits and making payments.

In general, hospitals and other providers paid under part A of Medicare can nominate, subject to HCFA's approval, a national, State, or other public or private agency to serve as a fiscal intermediary between themselves and the Federal Government.

The Secretary enters into contracts with insurance organizations to serve as carriers. The carrier must perform its obligations under the contract efficiently and effectively and must meet such requirements as to financial responsibility, legal authority, and other matters as the Secretary finds pertinent. The carrier must ensure that payments made to providers under part B on a reasonable cost or reasonable charge basis (as may be applicable) are reasonable.

Medicare administrative costs amount to approximately 2.5 percent of program outlays.

Hospitals

The Social Security Amendments of 1983 (Public Law 98–21) altered the way in which Medicare pays hospitals. From the inception of the program, Medicare had paid hospitals on a "reasonable cost" basis. Effective October 1, 1983, Medicare began paying under a prospective payment system. Medicare payments for inpatient operating costs of hospitals are determined in advance and made on a per discharge basis. A fixed amount per case is paid based upon the type of case or "diagnosis-related group" (DRG) into which the case is classified.

The payment system is not applied to capital-related costs, direct medical education costs, and certain other costs. These expenses continue to be reimbursed on a reasonable cost basis. Capital costs may no longer be excluded from the system beginning October 1, 1991. Certain hospitals are excluded from the system: psychiatric, long-term care, children's and rehabilitation hospitals. Excluded hospitals continue to be paid based on reasonable costs subject to certain rate of increase limitations.

Additional payments are made for extraordinarily costly cases, for the indirect costs of medical education, and for hospitals serving a disproportionate share of low income patients. An adjustment is made for the wage level in the area in which the hospital is located. In addition, there are certain other exceptions and adjustments including those for sole community providers, national and regional referral centers, and cancer treatment centers.

The payment system will be phased in over 4 years from payments based on an individual hospital's historical costs to payments based on the new prospective payment rates. In addition, the system will be phased in from payments representing nine regional payment levels to one national payment level for each DRG. There will be separate payment levels for urban and rural areas.

Hospitals and other institutional providers receiving payment under Medicare part A submit bills on behalf of the beneficiary and agree to accept the program's payment as payment in full. In general, providers are permitted to charge beneficiaries only the deductible and coinsurance amounts authorized by law.

Physicians

Medicare part B provides insurance coverage for physician services and for certain services provided by other noninstitutional providers. To be entitled to benefits under Medicare part B, individuals eligible for hospital benefits under part A must enroll in part B and pay a monthly premium.

Payments are made for services covered under part B after an annual deductible requirement of $75 has been satisfied. Payment is set at 80 percent of the Medicare approved "reasonable" charge. Beneficiaries are responsible for the remaining 20 percent as coinsurance.

For physicians' services, the Medicare approved reasonable charge is limited to the lowest of the following amounts: (1) the physician's actual charge for the service; (2) the physician's customary charge for the service; or (3) the prevailing charge for the service as provided by physicians in a particular locality. Since 1973, annual increases in prevailing charge levels have been limited by the Medicare Economic Index (MEI). The index reflects year-to-year changes in general wage levels and physician practice costs. Customary and prevailing charge screens generally are updated every year. However, payments were temporarily frozen from July 1, 1984 to December 31, 1986.

In limited situations, the Secretary of Health and Human Services may make an adjustment in payment levels if he determines that application of the standard payment methodology results in a payment level that is not "inherently reasonable." Standards and procedures for application of the inherent reasonableness authority are specified by statute. Based on similar considerations, Congress has required a reduction in payment for cataract surgery and related anesthesia services effective January 1, 1987, and has required reductions in certain other procedures effective April, 1, 1988.

Medicare payment is made either on an "assigned" or "unassigned" basis. By accepting assignment, physicians agree to accept the Medicare approved charge as payment-in-full. Thus, if assignment is accepted, beneficiaries are not liable for any out-of-pocket costs other than standard deductible and coinsurance payments. In contrast, if assignment is not accepted, beneficiaries may be liable for charges in excess of the Medicare approved charge.

Medicare's participating physician program was established in 1984 to provide beneficiaries with the opportunity to select a physician who has agreed to accept assignment on all services provided during a 12-month period. Nonparticipating physicians continue to be able to accept or refuse assignment on a claim-by-claim basis. A number of incentives are provided to encourage physicians to sign participation agreements. These include: higher prevailing charge screens, more rapid claims payment, and wide-spread distribution of participating physician directories.

To ensure that limitations on Medicare payments do not result in higher out-of-pocket costs for beneficiaries, the actual charges of nonparticipating physicians are limited during a 4-year period beginning on January 1, 1987. Under the maximum allowable actual charge (MAAC) limits, nonparticipating physicians with actual charges in excess of 115 percent of the prevailing charge are limited to a 1 percent a year increase in their actual charges. Nonparticipating physicians with lower actual charges may increase their charges at a more rapid rate. (Additional information concerning physician payment is included in appendix E.)

The following table shows the number of participating institutions and organizations.

TABLE 5.—PARTICIPATING INSTITUTIONS AND ORGANIZATIONS (JUNE 1984, 1987, AND 1988)

	1984	1987	1988
Hospitals	6,675	6,734	6,715
Short stay	6,038	5,895	5,856
Long stay	637	839	859
Skilled nursing facilities	5,952	7,262	7,379
Home health agencies	4,684	5,887	5,769
Independent laboratories	3,801	4,381	4,487
Outpatient physical therapy providers	791	977	1,030
Portable X-ray suppliers	269	374	395
Rural health clinics	420	451	459
Comprehensive outpatient rehabilitation facilities	48	124	141
Ambulatory surgical centers	155	765	852
Hospices	108	390	449
Facilities providing services to renal disease beneficiaries	1,335	1,645	1,701
Hospitals certified as both renal transplant and renal dialysis centers	147	153	160
Hospitals certified as renal transplant centers	16	38	39
Hospital dialysis facilities	117	147	149
Non-hospital renal dialysis facilities	645	914	960
Dialysis centers only	359	350	351
Inpatient care	51	43	42
Hospital and skilled nursing facility beds (June 1984, 1987, and 1988)			
Hospitals	1,144,142	1,136,287	1,124,928
Short stay	1,023,465	1,007,841	997,900
Long stay	120,677	128,446	127,028
Skilled nursing facilities	530,403	[1] 444,326	449,867

[1] As of January 1987. Participating Medicare—Only.

Source: Health Care Financing Administration.

END STAGE RENAL DISEASE PROGRAM

In 1972, Public Law 92-603 extended Medicare coverage for certain individuals with chronic renal failure. The Medicare program covers individuals, under age 65, who suffer from end stage renal disease, if they are (1) fully insured for old age and survivor insurance benefits, or (2) are entitled to either monthly social security benefits, or (3) are spouses or dependents of individuals described in (1) or (2). Such persons must be medically determined to be suffering from end stage renal disease and must file an application for benefits. Approximately 7 percent of the population suffering from end stage renal disease (ESRD) does not meet any of these requirements and thus are not covered for Medicare renal benefits.

Benefits for qualified end stage renal disease beneficiaries include all part A (hospital insurance) and part B (supplementary medical insurance) medical items and services. ESRD beneficiaries are automatically enrolled in the part B portion of Medicare and must pay the monthly premium for such protection.

TABLE 6.—ESRD MEDICARE BENEFICIARIES AND PROGRAM EXPENDITURES

[Expenditures in millions]

Fiscal Year	HI & SMI Expenditures	HI Beneficiaries	Per person
1974	$229	15,993	$14,300
1975	361	22,674	15,900
1976	512	28,941	17,700
1977	641	35,889	17,900
1978	800	43,482	18,400
1979	1,010	52,636	19,200
1980	1,250	60,814	20,600
1981	1,472	68,288	21,500
1982	1,649	74,866	22,026
1983	1,768	85,562	20,663
1984	1,883	95,022	19,816
1985	2,050	101,649	20,167
1986	2,324	115,002	20,208
1987	2,534	126,980	19,956
1988	2,749	136,184	20,186
1989	3,021	143,608	21,036
1990	3,294	149,048	22,100
1991	3,566	154,103	23,140
1992	3,851	159,340	24,168
1993	4,154	164,770	25,211
1994	4,407	170,397	25,863

Note: Estimates for 1982-94 are subject to revision by the Office of the Actuary, Office of Medicare Cost Estimates; projections for 1989-94 are under the fiscal year 1990 budget assumptions.

Source: Office of The Actuary, Health Care Financing Administration, Department of Health and Human Services, for fiscal years 1982-94.

Table 6 shows program expenditures, number of beneficiaries, and the average expenditure per person from 1974 to projected expenditures and beneficiaries through 1993. Total projected program expenditures for Medicare end stage renal disease program for fiscal year 1989 amount to $3.0 billion. In fiscal year 1988, there are projected to be 134,000 ESRD beneficiaries including successful transplant patients, and also including persons entitled to Medicare on the basis of disability who also have ESRD.

Outpatient maintenance dialysis can be provided in either a hospital-based setting or independent (often called freestanding) setting.

Until 1983, payment for maintenance dialysis under Medicare had been based on cost-based principles in the case of outpatient dialysis care furnished by hospitals and on the basis of "reasonable" or allowed charges in the case of services provided by independent (or freestanding) dialysis treatment facilities.

In 1981, the Congress passed Public Law 97-35 which required the Secretary to establish dual, or separately calculated, prospective rates for hospital-based and for freestanding facilities. Congress expressed a preference that these formulas be composite in nature, that is, they take into account the proportions of hospital-based and independent facility patients dialyzing at home and the relative costs of providing dialysis at home and in the facility setting.

Under the regulations in effect prior to October 1, 1986, before any exceptions are taken into account, the average (base) payment rate under the prospective payment system was $127 per treatment for independent facilities and $131 per treatment for hospital units, regardless of whether the treatment is furnished in the facility or in the patient's home. Public Law 99-509 provided, effective October 1, 1986, that payment rates were to be reduced to $125 and $129 respectively. The Secretary must maintain the reduced rates for 2 years but is authorized to change the rates thereafter. The exception process was also liberalized. The payment rates are adjusted by an area wage index to take into account differences in the local labor costs of dialysis facilities so that the actual payment rates (without any adjustments for exceptions) may vary above and below the average payment rates established for hospital-based and independent dialysis units. The new prospective payment system was implemented as of August 1, 1983.

Kidney transplants are covered for Medicare beneficiaries. The costs incurred by the kidney donor are reimbursed by Medicare even if the donor is not a Medicare beneficiary. Medicare reimburses more than 90 percent of the kidney transplants performed in the United States. Table 7 shows the numbers of transplants performed in Medicare-certified hospitals.

TABLE 7.—TOTAL KIDNEY TRANSPLANTS PERFORMED IN MEDICARE CERTIFIED U.S. HOSPITALS

Calendar year	Total transplants	Living donor		Cadaveric donor	
		Number	Percent	Number	Percent
1979	4,189	1,186	28	3,003	72
1980	4,697	1,275	27	3,422	73
1981	4,883	1,458	30	3,425	70
1982	5,358	1,677	31	3,681	69
1983	6,112	1,784	29	4,328	71
1984	6,968	1,704	24	5,364	76
1985	7,695	1,876	24	5,819	76
1986	8,976	1,887	21	7,089	79
1987	8,967	1,907	21	7,060	79

HOME HEALTH

The hospital insurance (part A) and the supplementary medical insurance (part B) programs cover home health services without a deductible or coinsurance charge. There is no limitation on the number of home health visits covered under the home health program, and there is no prior hospitalization requirement. When an individual is covered under parts A and B of the Medicare program, the individual will generally receive payment for home health services under part A of the program.

Reimbursement to home health agencies is based on Medicare rules for reasonable cost reimbursement. However, home health agencies are required to use the cost per visit by type of service for apportioning costs. Under this method, the total allowable costs of all visits for each type of service (skilled nursing, home health aide, etc.) is divided by the total number of visits by type of service. These average cost per visit amounts are multiplied by the number of covered Medicare visits for each type of service. The products represent the cost Medicare will recognize by type of service, subject to home health agency cost limits.

Public Law 97–248 required the Secretary to establish a single reimbursement limit for home health agencies based on the cost experience of freestanding home health agencies. In establishing the single limits, the Secretary was required to make adjustments, as appropriate, for hospital-based home health agencies based on legitimate cost differences resulting from such factors as a more complex case mix and the effects of Medicare cost allocation requirements.

In 1986, Public Law 99–509 established the current methodology for determining home health care limits. These are set at 112 percent of the mean of the labor-related and nonlabor per unit costs for each type of service provided by freestanding home health agencies. The limits are then applied on an aggregate basis to all the visits made by the agency, with appropriate adjustments for the special costs of hospital-based agencies.

Until recently the Medicare home health benefit was the fastest growing part of the Medicare program. Table 8 below indicates the increase in Medicare program expenditures for home health care.

TABLE 8.—TOTAL MEDICARE HOME HEALTH BENEFIT PAYMENTS

[Dollars in millions] [1]

	Reimbursements			Percent change	Visits per 1,000 enrollees [2]	Average charge per visit [2]
	Part A	Part B	Total			
1969	NA	NA	$81	....	424	$10
1970	NA	NA	63	−22.2	291	12
1971	NA	NA	57	−9.5	226	13
1972	NA	NA	66	15.8	241	14
1973	NA	NA	93	40.9	265	15
1974	NA	NA	139	49.5	340	17
1975	NA	NA	215	54.7	431	20
1976	NA	NA	297	38.1	520	22
1977	NA	NA	371	24.9	597	25
1978	NA	NA	443	19.4	639	27
1979	NA	NA	542	22.3	717	30
1980	NA	NA	666	22.9	792	33
1981	NA	NA	860	29.1	902	36
1982	NA	NA	1,121	30.3	1,060	40
1983	NA	NA	1,425	27.1	1,252	43
1984	NA	NA	1,897	33.1	1,343	50
1985	$2,111	$53	2,164	14.1	1,324	54
1986	2,222	44	2,266	4.7	1,303	58
1987	2,457	46	2,503	10.5	1,308	60
1988	2,548	37	2,585	3.3	1,313	63
1989	2,849	41	2,890	11.8	1,318	69
1990	3,187	80	3,267	13.0	1,325	73
1991	3,545	303	3,848	17.8	1,334	77
1992	3,859	648	4,507	17.1	1,344	82
1993	4,176	789	4,965	10.2	1,354	86
1994	4,483	735	5,218	5.1	1,365	90

[1] Based on fiscal year 1990 President's Budget assumptions. Includes Catastrophic benefits beginning in fiscal year 1990.

[2] Based on Part A alone.

NA—Not available.

Source: Health Care Financing Administration, Division of Budget.

HOSPICE CARE

Public Law 97-248 authorized Medicare part A coverage for hospice care services provided to individuals who are entitled to Medicare part A benefits and who are certified to be terminally ill. In

1986, the Congress in Public Law 99-272 made the hospice benefit a permanent part of the Medicare program effective April 7, 1986.

On December 16, 1983, the Health Care Financing Administration (HCFA), published regulations to implement the hospice provisions of Public Law 97-248. Among other things, the regulations establish requirements for eligibility, covered benefits, services, reimbursement procedures, and the conditions a hospice must meet to be approved for participation in the Medicare program.

Part A beneficiaries may elect to receive hospice care in lieu of most other Medicare benefits for up to two periods of 90 days each, a subsequent period of 30 days, and an additional extension period if elected.

The statute provides that payment to hospice providers be equal to the costs which are reasonable and related to the cost of providing hospice care, or which are based on such other tests of reasonableness as the Secretary may prescribe, subject to a "cap amount." The cap amount for a beneficiary for a year was established at $6,500, adjusted annually by the Medical component of the CPI. The cap for the period November 1, 1987 through October 31, 1988 is $8,406.

HCFA has implemented a prospective payment methodology for hospice care. Under this methodology, hospices are paid one of several predetermined rates for each day a Medicare beneficiary is under the care of the hospice. The rates vary according to the level of care furnished to the beneficiary. Total reimbursement to a hospice for care furnished to the Medicare beneficiary will vary by the length of the patient's period in the hospice program as well as by the characteristics of the services (intensity and site) furnished to the beneficiary.

Four basic payment categories are used for reimbursing hospices. The payment rates are national rates which are adjusted by the Bureau of Labor Statistics wage index for an area. The published payment rates are:

> (a) *Routine home care day.*—Routine home care day is a day on which an individual who has elected to receive hospice care is at home and is not receiving continuous home care. The routine home care rate is paid for every day a patient is at home and under the care of the hospice regardless of the volume or intensity of the services provided on any given day as long as less than 8 hours of care are provided. Public Law 99-272 increased the national rate to $63.17.
>
> (b) *Continuous home care day.*—A continuous home care day is a day on which an individual who has elected to receive hospice care receives hospice care consisting predominantly of nursing care on a continuous basis at home. Home health aide or homemaker services or both may also be provided on a continuous basis. Continuous home care is furnished only during brief periods of crisis and only as necessary to maintain the terminally ill patient at home. Home care must be provided for a period of at least 8 hours before it would be considered to fall within the category of continuous home care. Payment for continuous home care will vary depending on the number of hours of continuous services provided. Public Law 99-272 increased

the national payment rate to $368.67 for 24 hours of continuous home care.

(c) *Inpatient respite care day.*—An inpatient respite care day is one on which the individual who has elected hospice care receives care in an approved facility on a short-term (not more than 5 days at a time) basis for the respite of his caretakers. Public Law 99-272 increased the national payment rate to $65.33.

(d) *General inpatient care day.*—A general inpatient care day is one on which an individual who has elected hospice care receives general inpatient care in an inpatient facility for pain control or acute or chronic symptom management which cannot be managed in other settings. Care may be provided in a hospital, skilled nursing facility or inpatient unit of a freestanding hospice. Public Law 99-272 increased the national payment rate to $281.00.

Public Law 98-617 also required the Secretary of HHS to review and adjust the hospice rates annually, beginning October 1, 1985. According to the Secretary, cost data were not available in order for the rates to be updated.

TABLE 9.—MEDICARE HOSPICE PROGRAM DATA

Period	Number of facilities	Number of admissions	Total dollars (in millions)	Reimbursement per admission
11/01/83–09/14/84	119	2,098	$3.5	$1,646
11/01/83–12/19/84	153	3,800	7.0	1,834
11/01/83–04/30/85	171	7,549	16.0	2,117
11/01/83–07/31/85	200	11,014	23.5	2,137
11/01/83–09/30/85	233	14,874	33.8	2,272
11/01/83–10/31/86	279	34,865	102.2	2,930
11/01/83–10/31/87	417	91,475	278.3	3,042

Data derived from Hospice Status Report, Health Care Financing Administration.

SKILLED NURSING FACILITY

In general, skilled nursing facilities are reimbursed on the basis of reasonable costs subject to certain limits.

Reimbursement limits for skilled nursing facilities have been established for inpatient general routine service costs. Limits are set at 112 percent of the average labor-related and average non-labor related costs of each comparison group.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) required the Secretary to establish a single payment limit for both freestanding and hospital-based skilled nursing facilities (SNFs) based on the cost experience of freestanding facilities, subject to adjustments for hospital-based SNFs deemed appropriate. The provision was to be effective October 1, 1982. The Social Security Amendments of 1983 (Public Law 98-21) postponed the effective date for 1 year. This provision was further modified in Public Law 98-369 (the Deficit Reduction Act of 1984). The law provides that for cost reporting periods beginning on or after October 1, 1982, and prior to July 1, 1984, hospital-based facilities and freestanding facilities would be reimbursed on the same basis used to calculate reimbursement limits that had been in effect prior to the passage of the Tax Equity and Fiscal Responsibility Act (i.e., reverting to prior law). For cost reporting periods beginning on or after July 1, 1984, separate limits would continue to be established for freestanding facilities in urban and rural areas at 112 percent of the mean operating costs of urban and rural freestanding facilities, respectively. Limits for urban or rural hospital-based facilities would be set at the appropriate freestanding facility limit plus 50 percent of the difference between the freestanding facility limit and 112 percent of the mean operating costs of hospital-based facilities. Adjustments to take into account administrative costs for hospital based facilities would be allowed as an add on. Final regulations were issued April 1, 1986.

Public Law 99-272 established a prospective payment rate system for certain SNFs that elect such payment for cost reporting periods beginning on or after October 1, 1986. SNFs providing less than 1,500 days of care per year to Medicare patients in the preceding year would have the option of being paid a prospective payment rate set at 105 percent of the regional mean for all SNFs in the region. The rate is to be separately calculated for urban and rural areas and the prospective per diem rate also is to reflect wage differences between urban and rural areas within each region. These rates cannot exceed the per diem cost limit that would otherwise be applicable to that facility and cannot exceed its cost limit adjusted for capital costs.

TABLE 10.—SKILLED NURSING FACILITY DATA

Fiscal year	Number of SNF facilities	Total covered days of care (thousands)	Total interim reimbursement (thousands)	Interim reimbursement per day
1977	4,461	9,757.7	314,149	32
1978	4,982	9,231.5	317,505	34
1979	5,055	8,676.1	330,437	38
1980	5,155	8,766.2	358,478	41
1981	5,295	8,676.7	393,871	45
1982	5,510	8,694.4	425,180	49
1983	5,760	9,274.6	465,207	50
1984	6,183	9,542.8	489,544	51
1985	6,725	9,104.3	509,245	56
1986	7,065	8,425.7	515,081	61
1987[1]	7,148	7,282.2	533,548	73

[1] Data are considered preliminary.

Data derived from Medicare Statistical System (MSS), Current Utilization Series Table 8, 10/28/88 Update, BDMS.

Utilization and Quality Control Peer Review Program

The Social Security Amendments of 1972 provided for the establishment of Professional Standards Review Organizations (PSRO's) throughout the country which were charged with the comprehensive and on-going review of services provided under Medicare, Medicaid, and the maternal and child health programs. PSRO's determined, for purposes of reimbursement under these programs, whether services are: (1) Medically necessary, (2) provided in accordance with professional standards, and (3) in the case of institutional services, rendered in the appropriate setting.

The Tax Equity and Fiscal Responsibility Act of 1982 repealed the existing PSRO program and established a new program. Under this new program, a Peer Review Organization (PRO) is defined as an entity which is either composed of a substantial number of the licensed doctors of medicine and osteopathy practicing in the area or has available to it sufficient numbers of such physicians so that adequate peer review of various medical services can be assured.

The PRO program is similar to the PSRO program with the following important distinctions. Under the new program, eligible organizations may be either for-profit or non-profit and may be either physician groups or have available to them sufficient physicians to perform review. The Secretary is required to consolidate existing PSRO geographic areas. Each State has been designated as a single area, plus the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and American Samoa (54 PRO's). The Secretary is required to enter into a contract with a peer review organization for each geographic area. Priority consideration must be given to physician-sponsored organizations; payor organizations were excluded from participation until October 1, 1984. Contracts with provider or provider-affiliated organizations are prohibited though subcontracts with such entities are permitted. As of January 1, 1985, the Secretary had entered into agreements with 53 physician-sponsored organizations and one fiscal intermediary. The law provides that contracts are for an initial period of 2 years, renewable biennially. Contracts with PRO's must specify objectives to be achieved for each PRO over the contract period. Performance will be rated in terms of meeting these goals.

These entities may review, subject to the provisions of the contracts, the professional activities of physicians, other practitioners and institutional and noninstitutional providers in rendering services to Medicare beneficiaries. The review is to focus on the necessity and reasonableness of care, quality of care, and the appropriateness of the setting. The determinations of the peer review organizations would ordinarily be binding for purposes of determining whether benefits should be paid.

States are authorized to contract with review organizations for Medicaid review and 75 percent Federal matching is authorized for such purpose.

Hospitals were required to sign an agreement with a PRO in the area on or before November 15, 1984, as a condition of receiving payment under the Medicare program.

FINANCING

Background

The Medicare part A Hospital Insurance Trust Fund (HI) finances inpatient hospital, skilled nursing facility, home health and other institutional services. The part B Supplementary Medical Insurance Trust Fund (SMI) finances principally physician and hospital outpatient services. The Catastrophic Drug Insurance Trust Fund (CDI) finances the new outpatient drug benefit.

The Hospital Insurance Trust Fund is financed primarily through Social Security payroll tax contributions paid by employers, employees and the self-employed. The payroll tax rate for calendar year 1988 was 1.45 percent of earnings up to $45,000 per employee, and for 1989 it is 1.45 percent up to $48,000 per employee. An equal contribution rate is paid by the employer. Table 11 shows the contribution rates and maximum taxable earnings for both HI and the old-age, survivors and disability insurance (OASDI) programs.

TABLE 11.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR EMPLOYERS AND EMPLOYEES EACH AND TAXABLE EARNINGS BASES

Calendar year	Employee and employer rates, each (percent)			Taxable earnings base	Maximum HI tax
	OASDI combined	HI	OASDHI combined		
1977	4.95	0.90	5.85	$16,500	$148.50
1978	5.05	1.10	6.05	17,700	194.70
1979	5.08	1.05	6.13	22,900	240.45
1980	5.08	1.05	6.13	25,900	271.95
1981	5.35	1.30	6.65	29,700	386.10
1982	5.40	1.30	6.70	32,400	421.20
1983	5.40	1.30	6.70	35,700	464.10
1984	5.70	1.30	7.00	37,800	491.40
1985	5.70	1.35	7.05	39,600	534.60
1986	5.70	1.45	7.15	42,000	609.00
1987	5.70	1.45	7.15	43,800	635.10
1988	6.06	1.45	7.51	45,000	652.50
1989	6.06	1.45	7.51	48,000	696.00
1990 and after	6.20	1.45	7.65	(1)	(1)

(1) The maximum earnings subject to the tax increases each year in accordance with the increase in average earnings.

As table 12 demonstrates, the bulk of the financing for HI is derived from payroll taxes. In 1989, there will be transferred an estimated $337 million from the railroad retirement fund. This is the estimated amount that would have been in the fund if railroad employment had always been covered under the Social Security Act.

HI benefits are provided to certain uninsured persons aged 65 or over. Such payments are made initially from the HI Trust Fund, with reimbursement from the general fund of the Treasury for the costs, including administrative expenses, of the payments. Approximately $515 million will be transferred to HI during 1989 on this basis.

Certain persons not eligible for HI protection either on an insured basis or on the uninsured basis described in the previous paragraph may obtain protection by enrolling in the program and paying a monthly premium ($156 in 1989). This accounts for $55 million of financing in fiscal year 1989.

Sections 217(g) and 229(b) of the Social Security Act, prior to modification by the Social Security Amendments of 1983, authorized annual reimbursement from the general fund of the Treasury to the HI Trust Fund for costs arising from the granting of deemed wage credits for military service prior to 1957, according to quinquennial determinations made by the Secretary of Health and Human Services. These sections, as modified by the Social Security Amendments of 1983, provided for a lump sum transfer in 1983 for costs arising from such wage credits. In addition, the lump sum transfer included combined employer-employee HI taxes on the noncontributory wage credits for military service after 1965 and before 1984. After 1983, HI taxes on military wage credits are credited to the fund on July 1 of each year. The Social Security Amendments of 1983 also provided for (1) quinquennial adjustments to the lump sum amount transferred in 1983 for costs arising from pre-1957 deemed wage credits and (2) adjustments as deemed necessary to any previously transferred amounts representing HI taxes on noncontributory wage credits. In 1989, this accounts for $94 million of income to the HI trust fund.

The remaining $6,404 million of receipts consisted almost entirely of interest on the investments of the trust fund and interest on interfund borrowing.

As a result of the Medicare Catastrophic Coverage Act of 1988, a new trust fund known as the "Federal Hospital Insurance Catastrophic Coverage Reserve Fund (the Reserve Fund)" was established. No expenditures from the Reserve Fund are permitted. The rules for managing the Reserve Fund are similar to the rules that apply to the SMI trust fund. No catastrophic premiums were allocated to the Hospital Insurance Trust Fund. The Reserve Fund was established so that at some future time, transfers from this Reserve Fund to the HI trust fund would be made. All receipts attributable to the supplemental catastrophic coverage premiums (described below) are first transferred to the Reserve Fund and then to the extent receipts exceed expenditures plus interest forgone made from the HI trust fund due to expanded benefits under the act, the remaining receipts are transferred to the SMI trust fund.

TABLE 12.—INCOME TO THE HOSPITAL INSURANCE, SUPPLEMENTARY MEDICAL INSURANCE, CATASTROPHIC COVERAGE RESERVE FUND, AND CATASTROPHIC DRUG INSURANCE TRUST FUNDS FOR SELECTED FISCAL YEARS

[Dollars in millions]

	Fiscal year						Percent of total 1990 financing
	1970 [1]	1975 [1]	1980	1985	1989 [2]	1990 [2]	
Hospital insurance:							
Payroll taxes	$4,785	$11,291	$23,244	$46,490	$64,773	$68,776	52.5
Transfers from railroad retirement account	64	132	244	371	337	319	.2
Reimbursement for uninsured persons	617	481	697	766	515	411	.3
Premiums from voluntary enrollees	0	6	17	38	55	58	(3)
Payments for military wage credits	11	48	141	86	94	95	.1
Interest on investments and other income	137	609	1,072	3,182	6,404	7,742	5.9
Total	5,614	12,568	25,415	50,933	72,178	77,401	59.1
Supplementary medical insurance:							
Premiums	936	1,887	2,928	5,524	10,341	11,095	8.5
General revenues	928	2,330	6,932	17,898	31,137	34,242	26.2
Interest and other income	12	105	415	1,155	735	908	.7
SMI catastrophic premiums					1,165	3,640	2.8
Total	1,876	4,322	10,275	24,577	43,468	49,885	38.1
Catastrophic Coverage Reserve Fund (Premiums)					408	3,147	2.4
Catastrophic Drug Insurance (Premiums)						488	.4
Grand total—HI, SMI, CDI, Catastrophic Coverage Reserve Fund	7,490	16,890	35,690	75,510	116,054	130,921	100.0

[1] For fiscal years 1970 and 1975, the interval is from July 1 to June 30.
[2] Based upon alternative II–B assumptions.
[3] Less than 0.05.

Source: 1988 Annual Reports of the Board of Trustees of the Federal Hospital Insurance and Supplementary Medical Insurance Trust Funds and Congressional Budget Office for Catastrophic Premium Income.

Part B, which is voluntary, is financed from premiums paid by the aged, disabled and chronic renal disease enrollees and from the general revenues. The premium rate is derived annually based upon the projected costs of the program for the coming year. Under prior law, the premium rate was changed on July 1 of each year. The Social Security Amendments of 1983 (Public Law 98–21) moved the premium increase date to January 1 of each year to coincide with the changed date for the annual Social Security cash benefit cost-of-living (COLA) increase.

Ordinarily, the premium rate is the lower of: (1) an amount sufficient to cover one-half of the costs of the program for the aged or (2) the current premium amount increased by the percentage by which cash benefits were increased under the COLA provisions of the Social Security program. Premium income, which originally financed half of the costs of part B, had declined—as a result of this formula—to less than 25 percent of total program income.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), temporarily suspended the COLA limitation for 2 years—calendar years 1984 and 1985. During this period, enrollee premiums will be allowed to increase to amounts necessary to produce premium income equal to 25 percent of program costs for elderly enrollees. The Deficit Reduction Act of 1984 (Public Law 98-369) extended the TEFRA provision through calendar years 1986 and 1987. The 1987 Reconciliation bill (Public Law 100-203) extended the provision through 1989. The flat premium beginning January 1, 1989, is $27.90 per month.

The Part B monthly flat premiums are shown in the table below under the February 1989 CBO baseline.

TABLE 13.—CBO ESTIMATES OF PART B MONTHLY PREMIUMS

	Calendar year						
	1988	1989	1990	1991	1992	1993	1994
Basic part B	$24.80	$27.90	$29.00	$30.40	$31.90	$33.40	$34.80
Catastrophic	0	4.00	4.90	5.46	6.75	7.18	8.00
Drug insurance	0	0	0	1.94	2.45	3.02	3.00
Total	24.80	31.90	33.90	37.80	41.10	43.60	45.80

Under the Medicare Catastrophic Coverage Act of 1988 (Public Law 100-360), medicare part A eligible individuals are required to pay a new tax-related supplemental premium. The supplemental premium is intended to provide approximately 63 percent of catastrophic coverage and prescription drug benefit financing on a calendar year liability basis, with flat monthly premiums financing the remaining 37 percent.

The supplemental premium is drafted in the Tax Code, collected with income tax payments, and after 1989 is subject to income tax estimated payments. Medicare part A eligible individuals with less than $150 of income tax liability are exempt from the supplemental premium.

For taxable years beginning before 1994, the supplemental premium rate is the sum of the catastrophic coverage and prescription drug premium rates shown in table 14 below:

TABLE 14.—SUPPLEMENTAL PREMIUM RATES, 1989–93

[Per $150 of adjusted Federal income tax liability]

	Catastrophic coverage premium rate	Prescription drug premium rate	Total supplemental premium rate
Year in which taxable year begins:			
1989	$22.50	0	$22.50
1990	27.14	$10.36	37.50
1991	30.17	8.83	39.00
1992	30.55	9.95	40.50
1993	29.55	12.45	42.00

For individuals paying the maximum supplemental premium, receipts are allocated between the supplemental prescription drug and catastrophic coverage premiums pro rata on the basis of the respective premium rates. All of the amounts raised by these taxes are transfered to the appropriate trust fund. For 1994 and subsequent years rates will be increased from the previous year based on historical growth in cost, and the financial states of the trust funds.

FINANCIAL STATUS OF THE TRUST FUNDS

The Hospital Insurance Trust Fund balances are dependent upon the income to the HI trust fund primarily through payroll taxes exceeding the outlays for Medicare benefits and administrative costs. Outlays are affected by increases in inpatient hospital expenditures which have been rising at a faster rate than the income to the HI trust fund. Table 15 shows the percentage increase in Medicare outlays from fiscal year 1967 to fiscal year 1988 and the Congressional Budget Office (CBO) and HCFA projections from 1989 to 1994. According to the CBO, hospital costs attributable to Medicare beneficiaries are projected to increase over the 1989–94 period at an average annual rate of 10.4 percent, while income is projected to grow at an annual rate of 7.1 percent.

TABLE 15.—MEDICARE OUTLAYS, FISCAL YEARS 1967–94

Fiscal year	Part A		Part B		Drugs [1]		Total	
	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)
1967	2,597	...	799	...	0	...	3,396	...
1968	3,815	46.9	1,532	91.7	0	...	5,347	57.4
1969	4,758	24.7	1,840	20.1	0	...	6,598	23.4
1970	4,953	4.1	2,196	19.3	0	...	7,149	8.4
1971	5,592	12.9	2,283	4.0	0	...	7,875	10.2
1972	6,276	12.2	2,544	11.4	0	...	8,820	12.0
1973	6,842	9.0	2,637	3.7	0	...	9,479	7.5
1974	8,065	17.9	3,283	24.5	0	...	11,348	19.7
1975	10,612	31.6	4,170	27.0	0	...	14,782	30.3
1976 [2]	12,579	18.5	5,200	24.7	0	...	17,779	20.3
1977	15,207	20.9	6,342	22.0	0	...	21,549	21.2
1978	17,862	17.5	7,356	16.0	0	...	25,218	17.0
1979	20,343	13.9	8,814	19.8	0	...	29,157	15.6
1980	24,288	19.4	10,737	21.8	0	...	35,025	20.1
1981	29,260	20.5	13,228	23.2	0	...	42,488	21.3
1982	34,864	19.2	15,560	17.6	0	...	50,424	18.7
1983	38,624	10.8	18,311	17.7	0	...	56,935	12.9
1984	42,108	9.0	20,372	11.3	0	...	62,480	9.7
1985	48,654	15.5	22,730	11.6	0	...	71,384	14.3
1986	49,685	2.1	26,217	15.3	0	...	75,902	6.3
1987	50,803	2.3	30,837	17.6	0	...	81,640	7.6
1988	52,730	3.8	34,947	13.3	0	...	87,677	7.4
CBO projections								
1989	58,777	11.5	39,753	13.8	0	...	98,530	12.4
1990	66,266	12.7	47,671	19.9	43	...	113,980	15.7
1991	73,282	10.6	56,009	17.5	764	...	130,055	14.1
1992	80,689	10.1	64,460	15.1	1,605	110.1	146,754	12.8
1993	88,538	9.7	73,724	14.4	2,412	50.3	164,674	12.2
1994	96,463	9.0	84,215	14.2	3,065	27.1	183,743	11.6
HCFA projections								
1989	58,383	10.7	40,025	14.5	...	...	98,408	12.2
1990	64,289	10.1	47,557	18.8	150	...	111,996	13.8
1991	70,317	9.4	56,157	18.1	1,831	...	128,305	14.6
1992	76,614	9.0	65,318	16.3	3,994	118.1	145,926	13.7
1993	82,939	8.3	75,074	14.9	[3] 2,951	−26.1	160,964	10.3
1994	89,440	7.8	85,599	14.0	[3] 2,164	−26.7	177,203	10.1

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[1] No appropriation for administrative expenses for the Catastrophic Drug Insurance program has been made, so the CBO baseline does not include administrative costs for the drug program.

[2] In the transition quarter from July to October 1976 (when the beginning of the Federal fiscal year was changed), outlays were $4,805 million. These outlays do not appear in the table.

[3] Under HCFA actuarial assumptions, these outlay numbers are constrained because the trust fund does not have enough money to pay incurred liabilities.

Source: 1987 Annual Report of the Board of Trustees: Federal Hospital Insurance Trust Fund and Supplementary Medical Insurance Trust Fund and CBO and HCFA, Office of Management and Budget projections for 1989 through 1994 under current law.

Supplementary medical insurance

Because the Supplementary Medical Insurance (SMI) Trust Fund is financed through beneficiary premiums and the general revenues, it does not face the prospect of depletion as does the HI trust fund. However, the rapidly rising cost of health care is placing a heavy burden on the SMI trust fund—causing beneficiary premiums to rise and increasing the Federal deficit. CBO estimates that SMI outlays will increase at an annual rate of 16.2 percent from 1989 through 1994.

HI trust fund income, outlays, and balance

Table 16 shows the projections of the Congressional Budget Office and the administration for the HI trust funds with respect to income, outlays and balances for the years 1988 through 1994.

TABLE 16.—PROJECTIONS FOR THE HOSPITAL INSURANCE TRUST FUND AND CATASTROPHIC COVERAGE RESERVE FUND, BUDGET AUTHORITY AND OUTLAYS, FISCAL YEARS, UNDER CBO AND ADMINISTRATION BASELINE ASSUMPTIONS, PRESENT LAW

[By fiscal year, in billions of dollars]

	1988 [1]	1989	1990	1991	1992	1993	1994
CBO Baseline, Hospital Insurance Trust Fund:							
Total outlays	52.7	58.8	66.3	73.3	80.7	88.5	96.5
Income [3]	68.0	75.3	80.9	86.8	93.1	99.5	106.2
End-of-year balance	65.9	82.4	97.0	110.6	123.0	134.0	143.7
Start-of-year balance, as percent of outlays	96	112	124	132	137	139	139
CBO Baseline, Hospital Insurance Catastrophic Coverage Reserve Fund [2]:							
Income [3]		0.4	3.3	2.5	2.9	3.3	3.8
End-of-year balance		0.4	3.7	6.2	9.1	12.5	16.2
Administration, Hospital Insurance Trust Fund:							
Total outlays	52.7	58.4	64.3	70.3	76.6	82.9	89.4
Income [3]	68.0	75.3	80.7	86.9	92.6	98.8	104.3
End-of-year balance	65.9	83.8	102.3	121.5	140.1	159.0	176.9
Start-of-year balance, as percernt of outlays	96	113	130	146	159	169	178
Administration, Hospital Insurance Catastrophic Coverage Reserve Fund:							
income [3]			3.4	2.2	2.7	2.9	3.2
End-of-year balance			3.4	5.6	8.3	11.2	14.4

[1] Actuals.

[2] Outlays for catastrophic benefits are made from the HI Trust Fund.

[3] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers.

Note: Totals may not add due to rounding.

Source: Congressional Budget Office and HCFA, Office of Management and Budget.

Sensitivity of HI trust funds balances to different outlay growth assumptions

Table 17 presents alternative projections of Hospital Insurance (HI) trust fund outlay growth through 1993. All of these projections assume the economic projections underlying the baseline path. The alternatives all are arranged in the table from least to most growth. Hospital outlays are projected to grow by 1 or 2 percent less and 1 or 2 percent more than the baseline in each year. These changes could be due to variations in hospital rate increases, admission patterns, intensity or change in case mix, or technology changes. The percentage refers to entire hospital outlays and not just those outlays covered by the prospective payment system.

Income to the trust fund is the same (except for interest which varies by size of trust fund balance) in each projection. These projections include the income in the "Reserve Fund." Under the least growth alternative, expenditures are $86.5 billion in fiscal year 1994 compared to $96.5 billion in the baseline projection. Trust fund balances are $36 billion greater in this alternative.

Conversely, under the alternative with the most growth, expenditures are $10.9 billion higher and trust fund balances $38 billion smaller in 1993 as compared to the baseline projection.

TABLE 17.—ALTERNATIVE PROJECTIONS OF HOSPITAL INSURANCE OUTLAY GROWTH AND YEAR-END BALANCES [1]

[By fiscal year, in billions of dollars]

	1988[2]	1989	1990	1991	1992	1993	1994
2 percent lower HI outlay growth:							
Outlays	52.7	57.7	63.9	69.4	75.0	80.8	86.5
End-of-year balance	65.9	83.9	104.3	124.7	146.5	169.9	195.5
1 percent HI outlay growth:							
Outlays	52.7	58.3	65.1	71.3	77.8	84.6	91.3
End-of-year balance	65.9	83.4	102.5	120.8	139.3	158.3	177.9
Baseline:							
Outlays	52.7	58.8	66.3	73.3	80.7	88.5	96.5
End-of-year balance	65.9	82.8	100.7	116.8	132.1	146.4	159.9
1 percent higher HI outlay growth:							
Outlays	52.7	59.3	67.5	75.3	83.6	92.6	101.8
End-of-year balance	65.9	82.3	98.9	112.8	124.7	134.3	141.4
2 percent higher HI outlay growth:							
Outlays	52.7	59.8	68.7	77.3	86.7	96.8	107.4
End-of-year balance	65.9	81.7	97.1	108.7	117.2	121.9	122.2

[1] Projections for fiscal years 1988 through 1994 assume economic assumptions used in CBO baseline. Projections for fiscal years 1995–2013 are made by committee staff using the average of the growth rates for outlays and revenues in the last two years of CBO's baseline estimate.

[2] Actuals.

Note: End-of-year balances calculated as if catastrophic tax receipts were income to the HI Trust Fund, Under present law, those tax receipts are accumluated in the HI Catastrophic Coverage Reserve Fund, and outlays for catastrophic benefits are made from the HI Trust Fund.

Projections beyond 1994

Longer-term projections of trust fund balances depend on many different assumptions. Factors such as changes in PPS rates, number of beneficiaries, admission rates, and others will affect trust fund outlays. Also, the extent to which the complexity of diagnosis has grown and might continue to grow would increase outlays, but by how much is difficult to estimate. Finally, forecasting changes in medical technology and their implications for spending is very difficult.

In the absence of CBO projections beyond 1994, committee staff extrapolated the lastest CBO projections from 1995 to 2010. This extrapolation was done by assuming that the average rate of growth in outlays for the last 2 years of CBO's baseline projections would remain the same through 2010. A similar assumption was made with respect to income. These results are shown in table 18.

The projections in table 18 indicate that insolvency of the HI trust fund is postponed until 2006. This represents a regression of three years in the year the HI trust fund is exhausted, compared to last year. Under these committee staff extrapolations of CBO projections, the HI fund is exhausted in 2006 under the baseline path; 2002 under a 1 percent higher outlay growth rate than assumed in the baseline path; and after 2015 under a 1 percent lower growth rate in outlays relative to the baseline.

TABLE 18.—PROJECTIONS OF HI OUTLAY AND TRUST FUND BALANCES TO FISCAL YEAR 2010 BASED UPON CBO'S JANUARY 1989 PROJECTIONS [1]

[By fiscal year, in billions of dollars]

Fiscal year	Baseline path		Baseline path, assuming 1 percent lower annual growth		Baseline path, assuming 1 percent higher annual growth	
	Outlays	Yearend balance	Outlays	Yearend balance	Outlays	Yearend balance
January 1989, estimates:						
1990	66	101	65	103	68	99
1995	106	172	99	198	112	145
2000	165	185	148	293	184	68
2005	258	27	221	348	301	(343)
2010	403	(546)	329	273	492	(1,525)
Year trust fund exhausted		2006		2015		2002

[1] See footnote for above Table 17 for assumptions underlying projections.

Note: End-of-year balances calculated as if catastrophic tax receipts were income to the HI Trust Fund, Under present law, those tax receipts are accumulated in the HI Catastrophic Coverage Reserve Fund, and outlays for catastrophic benefits are made from the HI Trust Fund.

Long-range estimates

Long-range estimates for the next 25 years are shown in table 19 for the HI program and are based on the alternative II-B assumptions of the 1988 HI Trustees' report. As in the case of the OASDI program, annual expenditures as a percentage of taxable earnings are shown in table 18 as the cost rate. The income rate is simply the combined scheduled HI tax rate for employees and employers.

The average deficit over the 25-year period is 0.32 percent of taxable earnings. Last year, this deficit was estimated to be 0.44 percent of taxable earnings.

TABLE 19.—ESTIMATED LONG-RANGE HI ANNUAL COST RATE, ANNUAL INCOME RATE, AND ACTUARIAL BALANCE

[Percent of taxable payroll]

	Expenditures under the program [1]	Trust fund building and maintenance [2]	Total cost of the program [3]	Tax rate scheduled in the law [4]	Difference
Calendar year:					
1988	2.51	0	2.51	2.90	0
1989	2.56	0	2.56	2.90	0
1990	2.68	0	2.68	2.90	0
1995	3.03	0	3.03	2.90	0
2000	3.31	0	3.31	2.90	0
2005	3.53	.02	3.55	2.90	−.65
2010	3.77	.01	3.78	2.90	−.88
25-year average: 1988–2012	3.26	−.04	3.22	2.90	−.32

[1] Costs attributable to insured beneficiaries only. Benefits and administrative costs for noninsured persons are financed through general revenue transfers and premium payments, rather than through payroll taxes. Gratuitous credits for military service after 1956 are included in taxable payroll.

[2] Allowance for building and maintaining the trust fund balance at the level of a half year's outgo after accounting for the offsetting effect of interest earnings.

[3] Totals do not necessarily equal the sum of rounded components.

[4] Rates for employees and employers combined.

Note: The above estimates are based on the 1988 alternative II–B assumptions.

Source: Office of the Actuary, Health Care Financing Administration.

CBO BASELINE MEDICARE PROJECTIONS

Table 20 below presents revised CBO baselines projections for various components of Medicare outlays and premiums. The average annual growth rate from 1989 to 1994 is shown in the rightmost column of the table. Also as shown in the table, additional total income from the Medicare Catastrophic Coverage Act of 1988 exceeds Medicare benefits mandated under that act for each year from 1989 through 1994.

TABLE 20.—REVISED CBO BASELINE PROJECTIONS FOR VARIOUS COMPONENTS OF MEDICARE OUTLAYS AND PREMIUM

[By fiscal year, in billions of dollars]

	1988	1989	1990	1991	1992	1993	1994	Average annual growth rate (1989 to 1994)
Hospital Insurance (HI):								
Baseline outlays	52.7	58.8	66.3	73.3	80.7	88.5	96.5	10.4
Hospitals	46.9	51.4	57.9	64.1	70.6	77.6	84.5	10.5
Other part A	5.9	6.3	6.5	7.1	7.8	8.5	9.3	8.1
Catastrophic benefits	0	1.1	1.8	2.1	2.2	2.4	2.6	18.8
Supplementary Medical Insurance (SMI):								
Baseline outlays	34.9	39.8	47.7	56.0	64.5	73.7	84.2	16.2
Physicians	24.0	26.7	30.1	34.2	38.6	43.4	48.7	12.8
Other part B	10.8	12.8	15.4	18.1	21.4	25.1	29.5	18.2
Catastrophic benefits		.1	2.2	3.7	4.5	5.2	6.0	NA
Catastrophic drug insurance (CDI)		0	.04	.08	1.6	2.4	3.1	NA
Total outlays	87.6	98.6	114.0	130.1	146.8	164.6	183.8	13.3
Catastrophic benefits	.1	1.5	4.1	6.6	8.3	10.0	11.8	NA
Medicare baseline with all catastrophic benefits removed	87.5	97.1	109.9	123.5	138.5	154.6	172.0	12.1
Flat premiums:								
SMI	8.8	11.7	13.2	14.3	15.6	16.7	17.8	8.8
CDI	0	0	0	.6	1.0	1.2	1.3	NA
Total premiums	8.8	11.7	13.2	14.9	16.6	17.9	19.1	10.3
Catastrophic income								
Supplementary premium (revenue)		.4	5.4	6.1	6.7	7.3	8.2	NA
SMI premium (outlays)		1.2	1.8	2.1	2.6	2.9	3.3	22.4
CDI premium (outlays)			.5	1.6	1.6	1.9	2.4	NA
Total		1.6	7.7	9.8	10.9	12.1	13.9	NA

MEDICARE HISTORICAL DATA

Tables 21 through 35 present detailed historical data on the Medicare program. Tables 21 through 23 present detailed enrollment data. Table 24 describes the percentage of Medicare enrollees participating in a State buy-in agreement. Tables 25 and 26 show the distribution of Medicare payments by type of coverage and type of service. Tables 27 and 28 show the number of persons served and average reimbursement amounts per person and per enrollee. Tables 29–33 present the use of inpatient hospital services, skilled nursing facility services, home health agency services and beneficiaries under the ESRD program. Table 34 presents Medicare utilization and reimbursement by State and table 35 shows the number of Medicare enrollees in prepaid health plans.

TABLE 21.—NUMBER OF MEDICARE ENROLLEES, BY TYPE OF COVERAGE AND TYPE OF ENTITLEMENT, FOR SELECTED YEARS

Type of entitlement and coverage	Number of Medicare enrollees as of July 1										Average annual percent growth rate	
	1968	1976	1980	1981	1982	1983	1984	1985	1986	1987	1975–81	1981–87
Total:												
HI [1] &/or SMI [2]	19,821	24,959	28,478	29,010	29,494	30,026	30,456	31,083	31,750	32,411	2.5	1.9
Total HI	19,770	24,640	28,067	28,590	29,069	29,587	29,996	30,589	31,216	31,853	2.5	1.8
HI only	1,016	1,054	1,079	1,069	1,082	1,052	1,040	1,094	1,160	1,241	.2	2.5
Total SMI	18,805	23,405	27,400	27,941	28,412	28,975	29,416	29,989	30,590	31,170	2.6	1.8
SMI only	51	318	411	420	425	439	460	493	534	558	4.8	4.8
Aged:												
HI &/or SMI	19,821	22,790	25,515	26,011	26,540	27,109	27,571	28,176	28,791	29,380	2.2	2.1
Total HI	19,770	22,472	25,104	25,591	26,115	26,670	27,112	27,683	28,257	28,822	2.2	2.0
HI only	1,016	845	835	829	833	816	807	865	928	998	−.3	3.1
Total SMI	18,805	21,945	24,680	25,182	25,707	26,292	26,765	27,311	27,863	28,382	2.3	2.0
SMI only	51	318	411	420	425	439	459	493	534	558	4.8	4.8
All disabled:												
HI &/or SMI	(4)	2,168	2,963	2,999	2,954	2,918	2,884	2,907	2,959	3,031	5.6	.2
Total HI	(4)	2,168	2,963	2,999	2,954	2,918	2,884	2,907	2,959	3,031	5.6	.2
HI only	(4)	209	244	239	249	235	233	229	232	243	2.3	.2
Total SMI	(4)	1,959	2,719	2,759	2,705	2,682	2,651	2,678	2,727	2,788	5.9	.2
SMI only [3]												

End-State renal disease only:												
HI &/or SMI	(4)	13	28	27	27	28	30	31	39	47	13.3	9.6
Total HI	(4)	13	28	27	27	28	30	31	39	47	13.3	9.8
HI only	(4)	1	1	1	2	2	2	2	3	3	13.7	17.0
Total SMI	(4)	12	27	26	26	26	28	29	36	44	13.3	9.4
SMI only [3]												

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[1] Hospital insurance.

[2] Supplementary medical insurance.

[3] Disabled and ESRD only must have HI to be eligible for SMI coverage.

[4] Medicare disability entitlement began in 1973.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, "Annual Program Statistics" and unpublished data.

TABLE 22.—GROWTH IN NUMBER OF AGED MEDICARE ENROLLEES, BY SEX AND AGE, FOR SELECTED YEARS

Sex and age	Number of enrollees (in thousands)					Average annual percent growth rate			Total aged population 1987 [1]	Enrollees as percent of total aged population 1987
	1968 [1]	1975 [1]	1981	1984	1987	1968–75	1975–81	1981–87		
All persons	19,496	22,548	26,011	27,571	29,380	2.1	2.4	2.1	29.835	98.5
65 to 69	6,551	7,642	8,570	8,784	9,358	2.2	1.9	1.5	9,858	94.9
70 to 74	5,458	5,950	6,888	7,300	7,647	1.2	2.5	1.8	7,809	97.9
75 to 79	3,935	4,313	4,931	5,327	5,692	1.3	2.3	2.4	5,785	98.4
80 to 84	2,249	2,793	3,112	3,382	3,659	3.1	1.8	2.7	3,516	104.1
85 and over	1,303	1,850	2,510	2,778	3,024	5.1	5.2	3.2	2,867	105.5
Males	8,177	9,201	10,454	11,044	11,762	1.7	2.2	2.0	12,119	97.1
65 to 69	2,944	3,420	3,843	3,942	4,196	2.2	2.0	1.5	4,483	93.6
70 to 74	2,322	2,504	2,898	3,088	3,255	1.1	2.5	2.0	3,341	97.4
75 to 79	1,596	1,669	1,903	2,061	2,211	.6	2.2	2.5	2,264	97.6
80 to 84	864	1,005	1,068	1,161	1,257	2.2	1.0	2.7	1,225	102.6
85 and over	450	604	741	793	843	4.3	3.5	2.2	806	104.6
Females	11,319	13,347	15,557	16,526	17,619	2.4	2.6	2.1	17,717	99.4
65 to 69	3,606	4,222	4,727	4,842	5,162	2.3	1.9	1.4	5,397	95.5
70 to 74	3,136	3,446	3,990	4,212	4,393	1.4	2.5	1.6	4,469	98.3
75 to 79	2,338	2,644	3,028	3,266	3,481	1.8	2.3	2.4	3,522	98.8
80 to 84	1,386	1,788	2,043	2,222	2,402	3.7	2.2	2.7	2,290	104.9
85 and over	853	1,246	1,769	1,985	2,181	5.6	6.0	3.6	2,061	105.8

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[1] Medicare enrollment for 1968 and 1975 and total aged population data is for the United States.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, unpublished data; and U.S. Department of Commerce, Bureau of the Census.

TABLE 23.—GROWTH IN NUMBER OF DISABLED MEDICARE ENROLLEES WITH HI COVERAGE, BY TYPE OF ENTITLEMENT AND AGE, FOR SELECTED YEARS

Type of entitlement and age	Number of enrollees				Average annual percent growth rate		
	1975	1981	1984	1987	1975–81	1981–84	1984–87
All disabled persons	2,058,424	2,998,949	2,884,410	3,030,708	6.5	−1.3	1.7
Under age 35	238,070	383,503	388,240	457,445	8.3	.4	5.6
35 to 44	251,142	385,139	422,207	537,674	7.4	3.1	8.4
45 to 54	508,345	654,700	584,214	636,783	4.3	−3.7	2.9
55 to 64	1,060,967	1,575,607	1,489,749	1,398,806	6.8	−1.9	−2.1
Disabled workers	1,638,662	2,439,446	2,309,866	2,403,625	6.9	−1.8	1.3
Under age 35	100,439	195,000	193,094	240,195	11.7	−.3	7.5
35 to 44	164,439	269,765	290,395	386,391	8.6	2.5	10.0
45 to 54	426,451	558,519	485,378	525,430	4.6	−4.6	2.7
55 to 64	947,333	1,416,162	1,340,999	1,251,709	6.9	−1.8	−2.3
Adults disabled as children	324,864	427,513	459,620	505,048	4.7	2.4	3.2
Under age 35	153,708	180,167	186,003	203,849	2.7	1.1	3.1
35 to 44	84,508	110,617	126,252	141,617	4.6	4.5	3.9
45 to 54	71,484	83,135	87,380	95,031	2.5	1.7	2.8
55 to 64	45,164	53,594	59,985	64,551	2.9	3.8	2.5
Widows and widowers	83,771	105,091	85,227	74,819	3.9	−6.7	−4.2
Under age 35	1						
35 to 44	NA	1					
45 to 54	7,445	6,523	4,608	5,495	−2.2	−10.9	6.0
55 to 64	76,325	98,567	80,618	69,324	4.4	−6.5	−4.9
End-stage renal disease only	11,127	26,899	29,697	47,216	15.8	3.4	16.7
Under age 35	3,729	8,336	9,143	13,401	14.3	3.1	13.6
35 to 44	2,187	4,756	5,559	9,766	13.8	5.3	20.7
45 to 54	2,966	6,523	6,848	10,827	14.0	1.6	16.5
55 to 64	2,245	7,284	8,147	13,222	21.7	3.8	17.5

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, unpublished data.

TABLE 24.—MEDICARE ENROLLMENT: NUMBER AND PERCENTAGE OF INDIVIDUALS ENROLLED IN SUPPLEMENTARY MEDICAL INSURANCE (SMI) UNDER BUY-IN AGREEMENTS, BY TYPE OF BENEFICIARY AND BY YEAR OR 1987 AREA OF RESIDENCE

Year or area of residence [1]	All persons		Aged		Disabled	
	Number in thousands	Percent of SMI enrolled	Number in thousands	Percent of SMI enrolled	Number in thousands	Percent of SMI enrolled
Year:						
1968	1,648	8.8	1,648	8.8	NA	NA
1975	2,846	12.0	2,483	11.4	363	18.7
1980	2,954	10.9	2,449	10.0	504	18.9
1981	3,257	11.7	2,659	10.6	598	21.7
1982	2,791	9.8	2,288	8.9	503	18.6
1983	2,654	9.3	2,177	8.4	477	18.1
1984	2,601	8.9	2,127	8.0	474	18.2
1985	2,670	9.0	2,164	8.0	505	19.2
1986	2,776	9.2	2,222	8.0	554	20.9
1987	2,985	9.6	2,237	8.2	648	23.2
Area of residence [1]						
All areas	2,985	9.6	2,337	8.2	648	23.2
United States	2,983	9.7	2,335	8.3	648	23.7
Alabama	90	16.7	74	15.6	16	24.4
Alaska	3	18.2	3	15.4	1	40.0
Arizona	19	4.4	14	3.6	5	13.1
Arkansas	64	17.4	53	16.3	10	25.4
California	586	19.5	459	16.7	127	49.3
Colorado	35	11.1	28	9.7	7	26.7
Connecticut	15	3.4	10	2.4	5	17.4
Delaware	4	4.9	3	3.7	1	16.6
District of Columbia	13	17.2	10	15.2	2	38.5
Florida	147	7.0	123	6.3	24	16.8
Georgia	121	18.1	97	16.7	23	27.3
Hawaii	10	8.9	8	7.7	2	23.8
Idaho	7	5.8	5	4.5	2	22.5
Illinois	48	3.3	37	2.8	10	8.8
Indiana	49	6.9	36	5.7	12	18.7
Iowa	36	8.2	27	6.5	9	31.1
Kansas	24	6.9	18	5.7	5	24.7
Kentucky	60	12.1	46	10.6	14	22.6
Louisiana	76	15.7	62	14.5	14	23.7
Maine	15	8.9	11	6.8	5	28.6
Maryland	45	9.2	35	7.9	10	23.9
Massachusetts	74	9.2	57	7.6	17	28.8
Michigan	69	6.0	45	4.4	24	20.5

TABLE 24.—MEDICARE ENROLLMENT: NUMBER AND PERCENTAGE OF INDIVIDUALS ENROLLED IN SUPPLEMENTARY MEDICAL INSURANCE (SMI) UNDER BUY-IN AGREEMENTS, BY TYPE OF BENEFICIARY AND BY YEAR OR 1987 AREA OF RESIDENCE—Continued

Year or area of residence [1]	All persons		Aged		Disabled	
	Number in thousands	Percent of SMI enrolled	Number in thousands	Percent of SMI enrolled	Number in thousands	Percent of SMI enrolled
Minnesota	17	3.1	11	2.2	6	15.6
Mississippi	87	25.4	72	24.3	15	32.0
Missouri	44	6.0	33	5.0	11	16.6
Montana	8	7.8	6	6.2	2	24.6
Nebraska	7	3.1	5	2.1	2	18.2
Nevada	6	5.2	5	4.5	1	12.1
New Hampshire	3	2.5	2	1.7	1	12.2
New Jersey	80	7.8	63	6.6	17	21.5
New Mexico	19	12.5	16	11.4	4	23.0
New York	207	8.7	162	7.4	45	22.0
North Carolina	70	8.8	57	8.1	13	14.3
North Dakota	4	3.8	3	3.0	1	16.1
Ohio	89	6.3	70	5.4	20	14.5
Oklahoma	41	9.8	35	9.0	7	19.8
Oregon	22	5.9	16	4.6	6	21.1
Pennsylvania	91	5.0	65	3.9	26	18.0
Rhode Island	10	6.7	7	5.3	3	22.7
South Carolina	66	16.7	53	15.4	13	25.6
South Dakota	5	5.2	4	4.0	2	21.8
Tennessee	81	12.6	64	11.3	17	23.2
Texas	255	3.4	190	1.3	36	27.2
Utah	8	5.5	5	4.1	2	24.0
Vermont	6	8.5	4	6.4	2	30.1
Virginia	64	10.0	50	8.6	14	21.6
Washington	46	8.3	33	6.5	13	29.2
West Virginia	22	7.7	16	6.4	6	15.9
Wisconsin	46	6.9	30	4.9	17	30.4
Wyoming [2]						
Puerto Rico [3]						
Guam and Virgin Islands [3]	1	14.0	1	14.8	0	6.4

[1] State of residence is not necessarily State that bought coverage.

[2] No State buy-in agreement.

[3] Data for these areas combined to prevent disclosure of confidential information.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, "HCFA Statistics" and unpublished data.

TABLE 25.—DISTRIBUTION OF MEDICARE BENEFIT PAYMENTS, BY TYPE OF COVERAGE AND TYPE OF SERVICE, AND BY YEAR OR TYPE OF ENROLLEE

Type of coverage and type of service	Amount and distribution of payments for all enrollees, calendar year—									
	1975		1980		1981		1982		1983	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total payments (millions)	15,588	100.0	35,686	100.0	43,442	100.0	51,086	100.0	57,443	100.0
Hospital insurance	11,315	72.6	25,051	70.2	30,329	69.8	35,631	69.7	39,337	68.5
Inpatient	10,877	69.8	24,082	67.5	29,071	66.9	33,902	66.4	37,200	64.8
Skilled nursing facility	278	1.8	401	1.1	438	1.0	478	.9	520	.9
Home health agency	160	1.0	568	1.6	820	1.9	1,251	2.4	1,617	2.8
Supplementary medical insurance	4,273	27.4	10,635	29.8	13,113	30.2	15,455	30.3	18,106	31.5
Physicians'	3,415	21.9	8,188	22.9	10,085	23.2	11,893	23.3	14,063	24.5
Outpatient hospital	652	4.2	1,935	5.4	2,447	5.6	3,031	5.9	3,387	5.9
Home health agency	87	.6	195	.5	153	.4	17	0	22	0
Group practice plan	80	.5	203	.6	274	.6	335	.7	410	.7
Independent laboratory	39	.3	114	.3	154	.4	179	.4	224	.4

Type of coverage and type of service	Amount and distribution of payments for all enrollees							
	1984		1985		1986		1987	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total payments (millions)	62,870	100.0	70,391	100.0	75,844	100.0	80,162	100.0
Hospital insurance	43,209	68.7	47,444	67.4	49,605	65.4	49,342	61.6
Inpatient	40,727	64.8	44,710	63.5	46,713	61.6	46,282	57.7
Skilled nursing facility	543	.9	575	.8	563	.7	591	.7
Home health agency	1,933	3.1	2,139	3.0	2,287	3.0	2,399	3.0
Supplementary medical insurance	19,661	31.3	22,947	32.6	26,239	34.6	30,820	38.4
Physicians'	15,434	24.5	17,311	24.6	19,213	25.3	22,625	28.2
Outpatient hospital	3,450	5.5	4,304	6.1	5,142	6.8	5,907	7.4
Home health agency	32	.1	54	.1	46	.1	49	.1
Group practice plan	464	.7	720	1.0	1,113	1.5	1,361	1.7
Independent laboratory	281	.4	558	.8	725	1.0	878	1.1

Source: Health Care Financing Administration, Bureau of Data Management and Strategy and Office of the Actuary, unpublished data.

TABLE 26.—DISTRIBUTION OF MEDICARE BENEFIT PAYMENTS, BY TYPE OF COVERAGE AND TYPE OF SERVICE, AND BY TYPE OF ENROLLEE, 1987

	1987 payments by type of enrollee, calendar year—					
	All enrollees		Aged		Disabled	
	Amount (in millions)	Percentage distribution	Amount in millions	Percentage distribution	Amount (in millions)	Percentage distribution
Total payments (millions)	80,162	100.0	71,034	100.0	9,128	100.0
Hospital insurance	49,342	61.6	43,916	61.8	5,426	59.4
Inpatient	46,282	57.7	41,055	57.8	5,227	57.3
Skilled nursing facility	591	.7	571	.8	20	.2
Home health agency	2,399	3.0	2,223	3.1	176	1.9
Supplementary medical insurance	30,820	38.4	27,118	38.2	3,702	40.6
Physicians'	22,625	28.2	20,445	28.8	2,180	23.9
Outpatient hospital	5,907	7.4	4,601	6.5	1,306	14.3
Home health agency	49	.1	49	.1	0	.0
Group practice plan	1,361	1.7	1,230	1.7	131	1.4
Independent laboratory	878	1.1	793	1.1	85	.9

Source: Health Care Financing Administration. Bureau of Data Management and Strategy and Office of the Actuary, unpublished data.

TABLE 27.—PERSONS SERVED AND REIMBURSEMENTS FOR AGED MEDICARE ENROLLEES, BY TYPE OF COVERAGE AND BY YEAR OR 1986 DEMOGRAPHIC CHARACTERISTICS

Year, period, or 1986 characteristic	Hospital insurance and/or supplementary medical insurance			Hospital insurance			Supplementary medical insurance		
	Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements	
		Per person served	Per enrollee		Per person served	Per enrollee		Per person served	Per enrollee
Year:									
1968	397.8	$670	$267	204.0	$934	$191	394.8	$204	$81
1975	527.9	1,055	557	220.9	1,855	410	536.0	296	159
1980	637.7	1,791	1,142	240.0	3,379	811	652.3	545	356
1981	655.0	2,024	1,326	243.4	3,877	944	669.5	613	410
1982	641.4	2,439	1,565	250.7	4,462	1,119	653.8	733	479
1983	660.2	2,611	1,724	250.9	4,804	1,205	672.2	825	555
1984	685.7	NA	NA	239.6	NA	NA	698.9	NA	NA
1985	722.1	2,762	1,995	218.8	6,167	1,350	739.1	933	690
1986	731.7	2,870	2,100	213.0	6,528	1,390	750.8	1,012	760
Annual percentage change in period:									
1968 to 1975	4.1	6.7	11.1	1.1	10.3	11.5	4.5	5.5	10.2
1975 to 1981	3.7	11.5	15.6	1.6	13.1	14.9	3.8	12.9	17.2
1981 to 1986	2.2	7.2	9.6	−2.6	11.0	8.1	2.3	10.5	13.1
Age:									
65 and 66 years	652.1	$2,118	$1,301	138.2	$6,336	$876	692.2	$804	$556
67 and 68 years	656.0	2,441	1,601	153.5	6,612	1,015	672.4	925	622
69 and 70 years	689.2	2,579	1,777	169.2	6,732	1,139	702.0	960	674
71 and 72 years	719.0	2,777	1,997	188.8	6,863	1,296	731.0	1,016	742
73 and 74 years	735.4	2,910	2,140	204.9	6,801	1,394	746.9	1,063	794
75 to 79 years	767.7	3,100	2,380	235.4	6,683	1,573	779.5	1,110	865

TABLE 27.—PERSONS SERVED AND REIMBURSEMENTS FOR AGED MEDICARE ENROLLEES, BY TYPE OF COVERAGE AND BY YEAR OR 1986 DEMOGRAPHIC CHARACTERISTICS—Continued

Year, period, or 1986 characteristic	Hospital insurance and/or supplementary medical insurance			Hospital insurance			Supplementary medical insurance		
	Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements	
		Per person served	Per enrollee		Per person served	Per enrollee		Per person served	Per enrollee
80 to 84 years	807.9	3,310	2,674	285.2	6,389	1,822	820.2	1,114	913
85 years and over	827.0	3,477	2,875	336.7	6,062	2,041	864.4	1,026	887
Sex:									
Male	691.1	$3,272	$2,261	222.1	$6,859	$1,523	713.4	$1,107	$790
Female	758.7	2,626	1,992	206.8	6,289	1,301	775.5	955	740
Race:									
White	737.7	$2,842	$2,097	213.8	$6,451	$1,379	755.0	$1,004	$758
All other	682.5	3,185	2,174	207.5	7,320	1,519	715.4	1,108	793
Census region:									
Northeast	775.4	$2,933	$2,274	212.8	$7,094	$1,509	790.3	$1,025	$810
North Central	729.1	2,894	2,110	219.4	6,575	1,443	738.8	942	696
South	735.5	2,744	2,018	228.9	5,842	1,337	747.9	975	729
West	727.0	3,051	2,218	188.6	7,397	1,395	738.3	1,189	878

NA—Not available.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, "Annual Medicare Program Statistics."

TABLE 28.—PERSONS SERVED AND REIMBURSEMENTS FOR DISABLED MEDICARE ENROLLEES, BY TYPE OF COVERAGE AND BY YEAR OR 1986 DEMOGRAPHIC CHARACTERISTICS

Year, period or 1986 characteristic	Hospital insurance and/or supplementary medical insurance			Hospital insurance			Supplementary medical insurance		
	Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements	
		Per person served	Per enrollee		Per person served	Per enrollee		Per person served	Per enrollee
Year:									
1968	NA	NA	NA	NA	NA	NA	NA	NA	NA
1975	449.5	$1,548	$696	219.2	$2,077	$455	471.4	$565	$266
1980	594.1	2,544	1,511	245.7	3,798	933	633.8	994	630
1981	615.2	2,881	1,772	251.4	4,400	1,106	655.9	1,104	724
1982	608.9	3,431	2,089	256.9	5,110	1,313	650.5	1,303	848
1983	628.8	3,658	2,300	257.7	5,550	1,430	670.1	1,412	946
1984	639.5	NA	NA	242.6	NA	NA	683.5	NA	NA
1985	668.8	3,855	2,578	227.9	7,224	1,646	715.5	1,414	1,012
1986	681.0	4,032	2,746	226.3	7,623	1,725	729.0	1,519	1,107
Annual percentage change in period:									
1968 to 1975	NA	NA	NA	NA	NA	NA	NA	NA	NA
1975 to 1981	5.4	10.9	16.9	2.3	13.3	16.0	5.7	11.8	18.1
1981 to 1987	2.1	7.0	9.2	—2.1	11.6	9.3	2.1	6.6	8.9
Age:									
Under 35 years	619.5	$4,234	$2,623	189.2	$8,650	$1,636	660.9	$1,614	$1,067
35 to 44 years	616.9	4,009	2,473	189.9	2,928	1,505	668.5	1,591	1,064
45 to 54 years	660.9	4,141	2,737	224.2	7,518	1,686	712.5	1,612	1,148
55 to 59 years	696.6	4,125	2,874	243.9	7,473	1,822	746.8	1,529	1,142
60 to 64 years	753.0	3,836	2,889	256.1	7,268	1,882	797.4	1,382	1,102

TABLE 28.—PERSONS SERVED AND REIMBURSEMENTS FOR DISABLED MEDICARE ENROLLEES, BY TYPE OF COVERAGE AND BY YEAR OR 1986 DEMOGRAPHIC CHARACTERISTICS—Continued

Year, period or 1986 characteristic	Hospital insurance and/or supplementary medical insurance			Hospital insurance			Supplementary medical insurance		
	Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements		Persons served per 1,000 enrollees	Reimbursements	
		Per person served	Per enrollee		Per person served	Per enrollee		Per person served	Per enrollee
Sex:									
Male	628.2	$4,012	$2,520	211.3	$7,681	$1,623	677.5	$1,450	$983
Female	773.0	4,061	3,139	252.5	7,539	1,904	816.7	1,615	1,319
Race:									
White	682.0	$3,817	$2,603	224.2	$7,411	$1,662	731.9	$1,398	$1,023
All other	676.6	4,917	3,327	235.1	8,438	1,983	718.1	2,016	1,448
Census region:									
Northeast	733.2	$4,157	$3,048	225.5	$8,292	$1,870	779.9	$1,628	$1,269
North Central	697.0	4,032	2,810	234.2	7,932	1,858	738.5	1,385	1,023
South	673.1	3,878	2,610	245.9	6,743	1,658	703.3	1,432	1,008
West	710.2	4,388	3,116	206.4	8,946	1,847	747.7	1,806	1,350

NA—Not available.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, "Annual Medicare Program Statistics."

TABLE 29.—USE OF INPATIENT HOSPITAL SERVICES BY MEDICARE ENROLLEES, BY TYPE OF ENROLLEE AND TYPE OF HOSPITAL: CALENDAR YEAR 1987 [1]

Type of enrollee and type of hospital	Bills [2]		Covered days of care			Reimbursements [3] in dollars		
	Number in thousands	Per 1,000 enrollees	Number in thousands	Per bill	Per 1,000 enrollees	Amount in millions	Per bill	Per 1,000 enrollees
All enrollees:								
All hospitals	10,877	341	95,427	8.8	2,996	44,723	4,112	1,404
Short-stay	10,147	319	86,655	8.5	2,720	43,529	4,290	1,367
Long-stay	730	23	8,773	12.0	275	1,194	1,636	37
Psychiatric	247	8	2,044	8.3	64	374	1,511	12
All other	482	15	6,729	14.0	211	820	1,700	26
Aged:								
All hospitals	9,588	333	84,531	8.8	2,933	39,857	4,157	1,383
Short-stay	9,031	313	77,437	8.6	2,687	38,943	4,312	1,351
Long-stay	557	19	7,094	12.7	246	914	1,641	32
Psychiatric	109	4	860	7.9	30	180	1,648	6
All other	448	16	6,235	13.9	216	734	1,640	25
Disabled:								
All hospitals	1,289	425	10,897	8.5	3,595	4,865	3,775	1,605
Short-stay	1,116	368	9,218	8.3	3,042	4,585	4,109	1,513
Long-stay	173	57	1,678	9.7	554	280	1,619	92
Psychiatric	138	46	1,184	8.6	391	194	1,403	64
All other	34	11	495	14.3	163	86	2,483	28

[1] Preliminary data.

[2] Discharges not available by type of hospital.

[3] Adjusted for estimated PPS pass-through amounts.

Note: Only services rendered by inpatient hospitals are included.

Source: Health Care Financing Administration, Bureau of Management and Strategy, unpublished data.

TABLE 30.—USE OF SHORT-STAY HOSPITAL SERVICES BY AGED MEDICARE ENROLLEES, BY CALENDAR YEAR OR 1986 DEMOGRAPHIC CHARACTERISTICS

Calendar year, period, or 1986 characteristic	Aged hospital insurance enrollees (in thousands) [1]	Discharges		Total days of care [2]			Total charges [3]			
		Number (in thousands)	Per 1,000 enrollees	Number (in thousands)	Per discharge	Per 1,000 enrollees	Amount (in millions)	Per discharge	Per covered day of care	Per enrollee
Year:										
1969	20,014	6,855	342	78,346	11.4	3,915	$5,261	$768	$67	$263
1975	22,472	6,724	299	75,608	11.2	3,365	11,155	1,659	148	496
1980	25,104	9,051	361	94,422	10.4	3,761	28,114	3,106	298	1,120
1981	25,591	8,976	351	[4] 92,450	10.3	3,613	[4] 31,774	3,540	344	1,242
1982	26,115	7,566	290	76,014	10.0	2,911	31,223	4,126	411	1,196
1983	26,670	10,163	381	[4] 100,614	9.9	3,773	[4] 47,594	4,683	473	1,785
1984	27,112	9,780	361	[4] 87,046	8.9	3,211	[4] 47,807	4,888	549	1,763
1985	27,683	8,753	316	[4] 75,275	8.6	2,719	[4] 46,539	5,317	618	1,681
1986	28,257	8,854	313	[4] 77,031	8.7	2,726	[4] 51,186	5,781	664	1,811
Annual percentage change in period:										
1969 to 1975	1.9	−.3	−2.2	−.6	−.3	−2.5	13.3	13.7	14.0	11.2
1975 to 1981	2.2	4.9	2.7	3.4	−1.5	1.2	19.1	13.5	15.1	16.5
1981 to 1986	2.0	−.3	−2.2	−3.6	−3.3	−5.5	10.0	10.3	14.1	7.8
Age:										
65 to 69 years	9,022	NA	NA	NA	NA	NA	NA	NA	NA	NA
70 to 74 years	7,411	NA	NA	NA	NA	NA	NA	NA	NA	NA
75 to 79 years	5,431	NA	NA	NA	NA	NA	NA	NA	NA	NA
80 to 84 years	3,479	NA	NA	NA	NA	NA	NA	NA	NA	NA
85 years or over	2,924	NA	NA	NA	NA	NA	NA	NA	NA	NA

Sex:										
Male	11,378	NA	NA	NA	NA	NA	NA	NA	NA	NA
Female	16,879	NA	NA	NA	NA	NA	NA	NA	NA	NA
Race: [5]										
White	24,902	NA	NA	NA	NA	NA	NA	NA	NA	NA
All other	2,515	NA	NA	NA	NA	NA	NA	NA	NA	NA
Census region:										
Northeast	6,418	NA	NA	NA	NA	NA	NA	NA	NA	NA
North central	7,179	NA	NA	NA	NA	NA	NA	NA	NA	NA
South	9,195	NA	NA	NA	NA	NA	NA	NA	NA	NA
West	4,896	NA	NA	NA	NA	NA	NA	NA	NA	NA

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[1] As of July 1.
[2] Covered days of care not consistently available on discharge basis.
[3] Covered charges not available on discharge basis.
[4] Estimated.
[5] Excludes unknown race.
NA—Not available.

Note: Only services rendered by short-stay hospitals are included.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, unpublished data.

TABLE 31.—USE OF SKILLED NURSING FACILITY SERVICES AND PERCENTAGE CHANGE, BY TYPE OF MEDICARE ENROLLEE, AND CALENDAR YEAR OR PERIOD, OR 1986 DEMOGRAPHIC CHARACTERISTIC

Type of enrollee and year, period, or 1986 characteristic	Number of SNF facilities[1]	HI enrollees (in thousands)[2]	Persons served		Covered days of care			Reimbursements			
			Number (in thousands)	Per 1,000 enrollees	Number (in thousands)	Per person served	Per enrollee	Amounts (in millions)	Per person served	Per enrollee	Per day
Aged											
Year:											
1969[3]	4,786	20,014	394	19.7	17,520	45	0.9	$311	$790	$16	$18
1975	3,932	22,472	260	11.5	8,585	33	.4	233	896	10	27
1980	5,155	25,104	248	9.9	8,410	34	.3	331	1,336	13	39
1981	5,295	25,591	243	9.5	8,373	34	.3	361	1,486	14	43
1982	5,510	26,115	244	9.3	8,549	35	.3	388	1,591	15	45
1983	5,760	26,670	257	9.6	9,007	35	.3	413	1,612	16	46
1984	6,183	27,112	290	10.7	9,309	32	.3	458	1,581	17	49
1985	6,725	27,683	304	11.0	8,615	28	.3	464	1,525	17	54
1986	7,065	28,257	294	10.4	7,822	27	.3	474	1,613	17	61
Annual percentage change in period:											
1969 to 1975	−3.2	1.9	−6.7	−8.5	−11.2	−4.8	−12.9	−4.7	2.1	−6.6	7.3
1975 to 1981	5.1	2.2	−1.1	−3.2	−.4	.7	−2.5	7.6	8.8	5.3	8.1
1981 to 1986	5.9	2.0	3.9	1.8	−1.4	−5.0	−3.3	5.6	1.6	3.5	7.0
Age:											
65 to 69 years		9,013	NA	NA	NA	NA	NA	NA	NA	NA	NA
70 to 74 years		7,411	NA	NA	NA	NA	NA	NA	NA	NA	NA
75 to 79 years		5,431	60	11.1	NA	NA	NA	98	1,637	18	NA

80 to 84 years		3,479	68	19.5	NA	NA	NA	106	1,566	31	NA
85 years or over		2,924	97	33.2	NA	NA	NA	153	1,574	52	NA
Sex:											
Male		11,378	93	8.2	NA	NA	NA	146	1,569	13	NA
Female		16,879	200	11.9	NA	NA	NA	327	1,633	19	NA
Race: [4]											
White		24,902	267	10.7	NA	NA	NA	425	1,590	17	NA
All other		2,515	19	7.4	NA	NA	NA	36	1,940	14	NA
Census region:											
Northwest	1,677	6,418	53	8.3	1,852	35	.3	92	1,734	14	50
North Central	2,017	7,179	87	12.1	2,092	24	.3	134	1,547	19	64
South	1,741	9,195	77	8.4	2,109	27	.2	114	1,479	12	54
West	1,624	4,896	74	15.1	1,713	23	.3	133	1,809	27	78
DISABLED											
Year:											
1974 [4]	3,892	1,928	8	4.1	277	35	.1	$7	$936	$4	$27
1975	3,932	2,168	8	3.9	289	34	.1	9	1,049	4	30
1980	5,155	2,963	9	2.9	319	38	.1	13	1,571	5	42
1981	5,295	2,999	8	2.8	310	37	.1	14	1,693	5	45
1982	5,510	2,954	8	2.6	296	38	.1	14	1,762	5	46
1983	5,760	2,918	8	2.7	305	38	.1	15	1,856	5	48
1984	6,183	2,884	9	3.1	314	35	.1	15	1,675	5	47
1985	6,725	2,907	10	3.5	305	30	.1	17	1,681	6	57
1986	7,065	2,959	10	3.5	292	28	.1	19	1,872	6	66
Annual percentage change in period:											
1974 to 1975	1.0	12.5	5.7	−6.0	4.4	−1.3	−7.2	18.5	12.1	5.3	13.5
1975 to 1981	5.1	5.6	−.2	−5.5	1.2	1.4	4.2	8.1	8.3	2.4	6.8
1981 to 1986	5.9	−.3	4.4	4.7	−1.2	−5.3	−.9	6.5	2.0	6.8	7.8

TABLE 31.—USE OF SKILLED NURSING FACILITY SERVICES AND PERCENTAGE CHANGE, BY TYPE OF MEDICARE ENROLLEE, AND CALENDAR YEAR OR PERIOD, OR 1986 DEMOGRAPHIC CHARACTERISTIC—Continued

Type of enrollee and year, period, or 1986 characteristic	Number of SNF facilities[1]	HI enrollees (in thousands)[2]	Persons served		Covered days of care			Reimbursements			
			Number (in thousands)	Per 1,000 enrollees	Number (in thousands)	Per person served	Per enrollee	Amounts (in millions)	Per person served	Per enrollee	Per day
Age:											
Under 35 years		433	1	1.2	NA	NA	NA	1	2,165	3	NA
35 to 44 years		498	1	1.7	NA	NA	NA	2	1,931	3	NA
45 to 54 years		613	2	3.0	NA	NA	NA	3	1,860	6	NA
55 to 64 years		1,415	7	5.0	NA	NA	NA	13	1,847	9	NA
Sex:											
Male		1,881	6	2.9	NA	NA	NA	10	1,881	6	NA
Female		1,078	5	4.4	NA	NA	NA	9	1,862	8	NA
Race:[5]											
White		2,355	8	3.6	NA	NA	NA	16	1,830	7	NA
All other		548	2	2.9	NA	NA	NA	3	2,109	6	NA
Census region:											
Northeast	1,677	605	2	2.6	60	39	.1	3	1,978	5	51
North Central	2,017	693	3	4.2	82	28	.1	5	1,754	7	63
South	1,741	1,078	3	3.0	82	26	.1	6	1,744	5	68
West	1,624	475	3	5.3	64	25	.1	5	2,114	11	83

[1] Number serving either aged or disabled Medicare enrollees, as of December.
[2] As of July 1.
[3] Earliest year for SNF utilization data.
[4] First full year of disability coverage under Medicare.
[5] Excludes unknown race.

NA—Not available.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, unpublished data.

TABLE 32.—VISITS, CHARGES, AND REIMBURSEMENTS FOR HOME HEALTH AGENCY SERVICES AND PERCENTAGE CHANGES BY CALENDAR YEAR OR PERIOD, OR 1987 DEMOGRAPHIC CHARACTERISTICS

Calendar year, period, or 1987 characteristic	Visits		Charges [1]			Reimbursements					
						Amount (in millions)			Average annual percentage change in total	Total per visit	Total per enrollee
	Number in millions	Per 1,000 enrollees	Total amount (in millions)	Amount (in millions) for visits	Amount per visit	HI	SMI	Total			
Year:											
1969	9	424	$88	NA	NA	$52	$26	$78		$9	$4
1975	11	431	226	211	20	152	63	215	18.4	20	9
1980	23	792	775	739	33	490	176	666	25.4	30	23
1981	26	902	991	946	36	760	100	860	29.1	33	30
1982	31	1,061	1,313	1,248	40	1,105	16	1,121	30.4	36	38
1983	38	1,253	1,689	1,627	43	1,405	22	1,427	27.3	38	48
1984	41	1,358	2,025	1,911	46	1,676	27	1,704	19.4	41	56
1985	40	1,301	2,150	1,976	49	1,764	31	1,795	5.4	44	58
1986	39	1,225	2,206	2,117	54	1,775	36	1,811	.9	47	57
1987	35	1,068	2,091	1,989	57	1,664	36	1,701	−6.1	49	52
Annual percentage change in period:											
1969 to 1975	4.0	.3	17.1	NA	NA	19.7	15.8	18.4		13.9	14.2
1975 to 1981	13.1	10.7	22.8	23.2	8.7	21.6	18.6	20.7		6.7	18.1
1981 to 1987	2.5	2.2	4.2	4.2	1.5	7.6	−9.0	4.4		1.8	4.0

TABLE 32.—VISITS, CHARGES, AND REIMBURSEMENTS FOR HOME HEALTH AGENCY SERVICES AND PERCENTAGE CHANGES BY CALENDAR YEAR OR PERIOD, OR 1987 DEMOGRAPHIC CHARACTERISTICS—Continued

Calendar year, period, or 1987 characteristic	Visits		Charges [1]			Reimbursements					
						Amount (in millions)					
	Number in millions	Per 1,000 enrollees	Total amount (in millions)	Amount (in millions) for visits	Amount per visit	HI	SMI	Total	Average annual percentage change in total	Total per visit	Total per enrollee
Type of enrollee:											
Aged	32	1,094	1,939	1,848	57	1,543	36	1,580	…………	49	54
Disabled	2	814	152	141	57	121	0	121	…………	49	40
Sex:											
Male	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Female	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Race: [2]											
White	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
All other	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

[1] Excludes durable medical equipment and supplies, except for drugs and biologicals, furnished by home health agencies.

NA—Not available.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, unpublished data.

TABLE 33.—SELECTED UTILIZATION AND REIMBURSEMENT DATA FOR END-STAGE RENAL DISEASE, AND KIDNEY TRANSPLANT PROGRAMS, FOR SELECTED CALENDAR YEARS

Program and key program variables	1975	1980	1981	1982	1983	1984	1985	1986
End-stage renal disease program: [1]								
Beneficiaries:								
Number	12,702	28,334	26,899	27,347	27,847	29,698	30,876	38,970
Percentage change [2]		17.4	−5.1	1.7	1.8	6.6	4.0	26.2
Expenditures:								
Total (in millions)	$199	$595	$645	$732	$718	$585	$676	$829
Percentage change [2]		24.5	8.6	13.4	−2.0	[3] −18.5	15.5	22.7
Expenditure per beneficiary:								
Amount (in dollars)	15,668	20,984	23,993	26,772	25,774	19,699	21,880	21,270
Percentage change [2]		6.0	14.3	11.6	−3.7	−23.6	11.1	−2.8
New beneficiaries during year:								
Number	6,763	9,221	6,615	7,353	7,266	7,729	8,704	13,959
Percentage change [2]		6.4	−28.3	11.2	−1.2	6.4	12.6	60.4
Kidney transplant program: [4]								
Total transplants:								
Number of patients	[5] 3,730	4,266	4,440	4,917	5,591	6,304	7,073	8,258
Percentage change [2]		2.7	4.1	10.7	13.7	12.8	12.2	16.8
Kidney transplanted from living donors: [6]								
Number	NA	1,275	1,458	1,677	1,784	1,704	1,876	1,887
Percentage of total transplants		29.89	32.84	34.11	31.91	27.03	26.52	22.85
Number of beneficiaries losing entitlement because of 3-year limitation	NA	NA	NA	NA	NA	NA	NA	NA

[1] Persons entitled solely because of end-state renal disease. [2] For intervals of more than one year, rate shown is average annual rate of change.
[3] Not adjusted for PPS pass-throughs. [4] Transplants in Medicare-certified United States hospitals.
[5] Transplant count for 1975 includes non-Medicare patients. [6] Includes transplants to non-Medicare patients.

NA—Not available.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, unpublished data.

TABLE 34.—MEDICARE UTILIZATION AND REIMBURSEMENT: NUMBER OF AGED PERSONS SERVED UNDER HOSPITAL INSURANCE AND/OR SUPPLEMENTARY MEDICAL INSURANCE PER 1,000 ENROLLED, AMOUNT REIMBURSED PER PERSON SERVED, AND PERCENTAGE CHANGE, BY CENSUS DIVISION AND STATE, FOR SELECTED CALENDAR YEARS

	Persons served per 1,000 enrolled						Reimbursement per person served					
	1967	1982	1985	1986	Annual percent change		1967	1982	1985	1986	Annual percent change	
					1967–86	1982–86					1967–86	1982–86
Total, all areas [1]	366.5	641.4	722.1	731.7	3.7	3.3	$592	$2,439	$2,762	$2,870	8.7	4.2
United States [2]	370.9	650.0	731.2	741.2	3.7	3.3	593	2,446	2,772	2,881	8.7	4.2
New England	380.4	696.9	767.4	772.4	3.8	2.6	680	2,393	2,708	2,775	7.7	3.8
Maine	330.1	671.6	756.1	790.9	4.7	4.2	586	2,176	2,369	2,209	7.2	.4
New Hampshire	391.6	658.1	739.7	753.2	3.5	3.4	467	2,174	2,374	2,396	9.0	2.5
Vermont	411.7	677.2	742.8	774.1	3.4	3.4	515	2,073	1,990	2,212	8.0	1.6
Massachusetts	394.2	700.3	766.5	762.2	3.5	2.1	708	2,681	2,971	3,085	8.1	3.6
Rhode Island	375.4	769.1	829.6	824.2	4.2	1.7	625	1,994	2,619	2,675	8.0	7.6
Connecticut	390.9	689.8	764.1	772.4	3.6	2.9	711	2,171	2,570	2,651	7.2	5.1
Middle Atlantic	388.1	688.6	768.2	776.4	3.7	3.0	578	2,428	2,771	2,986	9.0	5.3
New York	406.9	703.8	765.7	774.6	3.4	2.4	610	2,343	2,533	2,795	8.3	4.5
New Jersey	399.0	687.6	759.8	762.0	3.5	2.6	526	2,386	2,650	2,906	9.4	5.1
Pennsylvania	365.0	668.4	776.4	787.0	4.1	4.2	533	2,574	3,147	3,277	10.0	6.2
East North Central	350.2	630.1	725.9	745.1	4.1	4.3	614	2,687	2,906	3,013	8.7	2.9
Ohio	353.6	630.2	718.4	753.5	4.1	4.6	585	2,579	2,792	2,995	9.0	3.8
Indiana	343.7	598.7	672.2	707.4	3.9	4.3	545	2,428	2,510	2,699	8.8	2.7
Illinois	339.2	589.7	693.4	701.4	3.9	4.4	703	3,072	3,313	3,402	8.7	2.6
Michigan	379.5	712.2	804.3	811.4	4.1	3.3	532	2,702	2,991	3,017	9.6	2.8
Wisconsin	354.7	615.6	736.9	751.2	4.0	5.1	639	2,346	2,527	2,559	7.6	2.2
West North Central	363.2	617.3	693.4	695.2	3.5	3.0	558	2,349	2,627	2,625	8.5	2.8
Minnesota	389.0	621.3	624.8	571.2	2.0	−2.1	601	2,146	2,447	2,413	7.6	3.0

Iowa	365.9	613.0	715.3	735.6	3.7	4.7	505	2,156	2,282	2,296	8.3	1.6
Missouri	364.8	603.6	712.0	732.5	3.7	5.0	544	2,667	3,118	3,095	9.6	3.8
North Dakota	441.2	665.3	730.7	766.7	3.0	3.6	492	2,413	2,466	2,586	9.1	1.7
South Dakota	358.0	585.7	694.2	718.3	3.7	5.2	514	2,228	2,281	2,404	8.5	1.9
Nebraska	352.5	575.6	634.2	663.9	3.4	3.6	540	2,220	2,449	2,243	7.8	.3
Kansas	365.3	669.9	765.4	759.3	3.9	3.2	540	2,376	2,553	2,633	8.7	2.6
South Atlantic	350.5	653.4	740.4	748.6	4.1	3.5	544	2,310	2,531	2,674	8.6	3.7
Delaware	368.2	680.2	770.9	798.5	4.2	4.1	552	2,119	2,612	2,841	9.0	7.6
Maryland	349.4	667.3	757.6	769.5	4.2	3.6	564	2,764	2,975	3,116	9.4	3.0
District of Columbia	452.8	691.6	739.4	763.2	2.8	2.5	570	3,622	3,744	3,637	10.2	.1
Virginia	317.3	622.2	729.7	747.4	4.6	4.7	516	2,170	1,976	2,597	8.9	4.6
West Virginia	342.2	577.8	692.0	718.1	4.0	5.6	489	2,283	2,575	2,674	9.3	3.8
North Carolina	324.0	588.8	727.9	739.1	4.4	5.8	515	1,995	1,982	2,071	7.6	0.9
South Carolina	296.2	585.1	680.6	698.3	4.6	4.5	523	1,990	2,340	2,325	8.2	4.0
Georgia	320.2	632.1	743.5	750.4	4.6	4.4	474	1,982	2,479	2,627	9.4	7.3
Florida	420.9	710.6	759.1	757.5	3.1	1.6	588	2,437	2,773	2,838	8.6	3.9
East South Central	332.1	589.5	698.1	729.7	4.2	5.5	489	2,232	2,570	2,704	9.4	4.9
Kentucky	365.9	552.7	671.9	711.2	3.6	6.5	458	2,269	2,395	2,612	9.6	3.6
Tennessee	354.8	583.3	678.7	708.6	3.7	5.0	502	2,225	2,816	2,916	9.7	7.0
Alabama	322.7	621.4	743.8	774.7	4.7	5.7	490	2,303	2,502	2,667	9.3	3.7
Mississippi	283.2	604.2	699.9	724.9	5.1	4.7	471	2,084	2,480	2,504	9.2	4.7
West South Central	374.8	606.6	687.4	715.1	3.5	4.2	504	2,371	2,811	2,909	9.7	5.2

TABLE 34.—MEDICARE UTILIZATION AND REIMBURSEMENT: NUMBER OF AGED PERSONS SERVED UNDER HOSPITAL INSURANCE AND/OR SUPPLEMENTARY MEDICAL INSURANCE PER 1,000 ENROLLED, AMOUNT REIMBURSED PER PERSON SERVED, AND PERCENTAGE CHANGE, BY CENSUS DIVISION AND STATE, FOR SELECTED CALENDAR YEARS—Continued

	Persons served per 1,000 enrolled						Reimbursement per person served					
	1967	1982	1985	1986	Annual percent change		1967	1982	1985	1986	Annual percent change	
					1967–86	1982–86					1967–86	1982–86
Arkansas	319.3	616.8	715.4	739.1	4.5	4.6	466	2,051	2,550	2,527	9.3	5.4
Louisiana	343.4	559.0	653.3	697.7	3.8	5.7	446	2,445	3,167	3,421	11.3	8.8
Oklahoma	416.1	599.2	677.8	714.8	2.9	4.5	486	2,281	2,482	2,625	9.3	3.6
Texas	393.7	619.8	693.2	714.8	3.2	3.6	522	2,448	2,860	2,926	9.5	4.6
Mountain	417.1	640.9	716.6	716.3	2.9	2.8	560	2,237	2,637	2,724	8.7	5.0
Montana	416.5	618.0	679.7	698.6	2.8	3.1	505	2,124	2,348	2,495	8.8	4.1
Idaho	408.8	625.5	714.5	752.1	3.3	4.7	467	1,921	2,384	2,230	8.6	3.8
Wyoming	395.0	568.4	681.7	692.4	3.0	5.1	432	2,446	2,804	2,768	10.3	3.1
Colorado	475.4	657.8	704.0	718.6	2.2	2.2	578	2,300	2,521	2,746	8.5	4.5
New Mexico	377.6	622.3	689.8	678.2	3.1	2.2	513	2,064	2,462	2,584	8.9	5.8
Arizona	431.7	668.8	758.1	740.2	2.9	2.6	612	2,239	2,896	2,943	8.6	7.1
Utah	346.0	598.6	713.1	726.7	4.0	5.0	580	1,931	2,225	2,325	7.6	4.7
Nevada	414.9	645.7	688.9	642.0	2.3	−.1	532	3,174	3,243	3,354	10.2	1.4
Pacific	468.9	689.2	739.7	730.7	2.4	1.5	630	2,624	6,153	3,163	8.9	4.8
Washington	433.0	667.9	731.1	732.0	2.8	2.3	507	1,944	2,522	2,475	8.7	6.2
Oregon	392.6	630.6	716.2	703.1	3.1	2.8	583	2,315	2,459	2,117	7.0	−2.2
California	490.7	702.3	745.7	735.2	2.2	1.2	653	2,788	3,379	3,447	9.2	5.4
Alaska	307.2	644.7	678.4	691.8	4.4	1.8	376	2,756	3,554	3,654	12.7	7.3
Hawaii	407.4	649.4	709.3	703.1	2.9	2.0	572	2,307	2,334	2,255	7.5	−.6

[1] Consists of United States, Puerto Rico, Virgin Islands, and other outlying areas.

[2] Consists of 50 States, District of Columbia, and residence unknown.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, "Annual Medicare Program Statistics," and unpublished data.

TABLE 35.—MEDICARE ENROLLMENT: NUMBER OF PERSONS ENROLLED IN MEDICARE-CONTRACTING PREPAID HEALTH PLANS, BY TYPE OF BENEFICIARY, TYPE OF CONTRACT, AND YEAR [1]

Type of beneficiary and type of contract	1983	1985	
		Number	Percent change
All beneficiaries:			
Health care prepayment plan	716,050	1,183,986	65.3
Health maintenance organization	210,878	706,384	235.0
Total	1,352,862	1,890,370	39.7
Aged beneficiaries:			
Health care prepayment plan	512,122	532,049	3.9
Health maintenance organization	148,786	480,782	223.1
Total	660,908	1,012,831	53.2
Disabled beneficiaries:			
Health care prepayment plans	24,096	58,354	142.2
Health maintenance organization	6,950	54,447	683.4
Total	31,046	112,801	263.3

[1] Includes only plans contracting with Medicare on a capitation basis. An unknown number of supplementary medical insurance enrollees are members of noncontracting plans.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Data Statistical System.

RECENT LEGISLATIVE CHANGES

The major legislative changes enacted in 1987 (Public Law 100-203) and in 1988 (Medicare Catastrophic Coverage Act of 1988) are described below. Table 36 presents the CBO estimates of savings from the 1987 reconciliation bill which was passed pursuant to the economic summit. Tables 37 through 40 present the final cost estimates and impact of the Medicare Catastrophic Coverage Act.

THE OMNIBUS BUDGET RECONCILIATION ACT OF 1987

TABLE 36.—MEDICARE DEFICIT IMPACT OF THE 1987 RECONCILIATION BILL BY PROVISION

[CBO estimates, by fiscal year, in millions of dollars]

	1988	1989	1990	3-year total
A. Medicare part A:				
Hospital market basket update (effective April 4, 1988)	−195	−1,325	−1,515	−3,035
Indirect medical education	0	−50	−55	−105
Extend rural swing bed provisions	5	5	10	20
Extend sole community provider provisions	3	3	3	9
Hospital capital reduction (effective January 1, 1988)	−185	−265	0	−450
Access to SNFs	0	0	0	0
Pacemaker warranties	−3	−6	−6	−15
Nursing home standards reform	0	15	23	38
Sequester hospitals	−380	0	0	−380
Subtotal: Part A provisions	−755	−1,623	−1,540	−3,918
B. Medicare parts A and B:				
Prompt-pay standard (10 days in 1988, 14 in 1989)	−520	−570	−130	−1,220
Home health-conditions of part	0	(4)	5	5
Medicare secondary payer/ESRD	−2	−1	−1	−4
Subtotal: Parts A and B provisions	−522	−571	−126	−1,219
C. Medicare part B:				
MEI update (effective April 1, 1988)	−135	−600	−820	−1,555
Freeze physician services (to April 1, 1988)	−165	0	0	−165
Rural underserved bonus (effective January 1, 1989)	0	30	45	75
Reduce payments for overpriced procedures (effective April 1, 1988)	−95	−240	−275	−610
Limited charges for A-scans (effective April 1, 1988)	−20	−45	−50	−115
New physicians (effective April 1, 1988)	−45	−105	−130	−280
Reduce clinical lab	−65	−135	−225	−425
Fee schedules—radiologic services	0	−10	−25	−35
Payment for anesthesia services (effective April 1, 1988)	−5	−15	−15	−35
Prohibit charges for purchased services (effective April 1, 1988)	−3	−10	−10	−23
DME	−60	−60	−95	−215
Eliminate ROE for OP payments (effective April 1, 1988)	−15	−35	−40	−90
Outpatient radiology	0	−140	−260	−400
Eye and ear hospitals	0	1	0	1
Therapeutic shoes for diabetics (demonstration)	0	0	0	0

TABLE 36.—MEDICARE DEFICIT IMPACT OF THE 1987 RECONCILIATION BILL BY PROVISION—Continued

[CBO estimates, by fiscal year, in millions of dollars]

	1988	1989	1990	3-year total
Beneficiary co-pay for ambulatory surgery (effective April 1, 1988)	−66	−153	−180	−399
Premium extension for 1 year	0	−260	−365	−625
Rural clinics payment rate (effective April 1, 1988)	2	4	5	11
Adjustment in payment for physician services	0	0	0	0
Flu vaccine (effective October 1, 1988)	0	25	25	50
Mental health limit (effective April 1, 1988)	30	110	200	340
Psychologists in CMHCs (effective April 1, 1988)	(4)	1	2	3
Physician assistants (effective April 1, 1988)	(4)	1	2	3
NHSC physician loan collection (effective April 1, 1988)	−5	−16	−16	−37
Sequester all Part B from January 1, 1988 to April 1, 1988	−120	0	0	−120
Sequester all Part B through December 31, 1987	−50	0	0	−50
Subtotal: Part B provisions	−817	−1,652	−2,227	−4,696
D. Peer review organizations (PROs):				
Consultations and reports	1	3	3	7
On-site review requirements	0	2	2	4
Subtotal: PRO provisions	1	5	5	11
Total all medicare provisions	−2,093	−3,841	−3,888	−9,822

Part A provisions

1. *Hospital prospective payment rates.*—The act sets the fiscal year 1988 update at 1.5 percent for PPS hospitals in urban areas greater than 1 million, 3.0 percent for PPS hospitals in rural areas, and 1.0 percent for other PPS hospitals; and sets the fiscal year 1989 update at market basket minus 2.0 percentage points for hospitals in urban areas greater than 1 million, market basket minus 1.5 percentage points for rural hospitals, and market basket minus 2.5 percentage points for other hospitals. The act sets the update factor at the market basket rate of increase for all PPS hospitals in fiscal year 1990 and later years.

For PPS-exempt hospitals, the annual increase for reporting periods beginning in fiscal year 1988, excluding the first 51 days of such periods is set at 2.7 percent, and the annual increases for fiscal year 1989 and fiscal year 1990 are set equal to the projected increase in the market basket.

The legislation establishes a regional floor on payments to PPS hospitals during a 3-year period and requires a ProPAC analysis of hospital nonlabor costs and input prices. The act also reduces the indirect medical education adjustment to 7.70 percent and removes the existing 15 percent cap on additional payments to disproportionate share hospitals effective Oct. 1, 1988. In addition, the act increases the disproportionate share adjustment to 25 percent for hospitals which qualify based upon their receiving more than 30 percent of their net revenues from public sources. The act requires that ProPAC analyze the desirability of adjusting the nonlabor portion of hospital payments based upon the input prices which hospitals face in purchasing goods and services.

2. *Rural hospitals.*—The act revises standards for including an adjacent rural county in an urban area, expands the swing bed program to rural hospitals with up to 100 beds, expands availability of payment adjustments for small and isolated rural hospitals with declining admissions, changes the definition of rural referral centers to include all rural hospitals with more than 275 beds, and authorizes $15 million per year in fiscal years 1988–90 to fund rural demonstration projects restricted to nonprofit hospitals.

3. *Payments for capital.*—The act reduces payments for capital costs by 12 percent in fiscal year 1988 effective Jan. 1, 1988, and by 15 percent in fiscal year 1989; requires payment for capital on a prospective basis beginning Oct. 1, 1991; and excludes capital from PPS until then.

4. *Extension of reductions under sequester order.*—The act provides that reductions in payments under the Nov. 20, 1987 sequester order shall continue for all hospital services until Mar. 31, 1988, and for other part A services until Dec. 31, 1987.

5. *Hospital reporting.*—The act requires the Secretary to create a new data base for the hospital reporting system utilizing information from hospitals with cost reporting periods beginning during the first 4 months of the Federal fiscal year. The act also requires the Secretary to conduct a 2-year demonstration program using a new hospital reporting format in two States.

6. *Delay in effective date for requiring hospital protocols for organ procurement.*—The act delays the date by which the Secretary must complete designation of organ procurement agencies until Mar. 31, 1988.

7. *Miscellaneous and technical provisions relating to part A.*—The act increases the maximum civil monetary penalty for violation of Medicare requirements regarding emergency cases to $50,000; delays recoupment of any overpayments which may have been made to certain hospitals under sec. 1886(c) State waiver authority for 1 year; clarifies the sec. 1814(b) State waiver authority; prohibits the Secretary from making a change in policy or method regarding bad debt recognition for hospital services; increases payments for outlier cases classified in DRG's relating to burns; amends prior law regarding a miscellaneous accounting provision; requires, under certain conditions, that the Secretary determine that a pediatric hospital meets the criteria of a Medicare heart transplant facility; extends indefinitely the current waiver of certain inpatient requirements for Connecticut Hospice, Inc.; revises the appointment process for the Prospective Payment Assessment

Commission; requires the Secretary to prepare a rural regulatory impact analysis for any rule or regulation that may have significant impact on small rural hospitals; clarifies that part A covers the inpatient hospital services of clinical psychologists; modifies Medicare's conditions of participation related to individuals responsible for care of a Medicare patient; and clarifies that hospitals which qualify for disproportionate share status based upon the percentage of their revenues derived from State and local government sources do so based upon their net revenues.

Part A and B provisions

1. *Payment standards.*—The act requires fiscal intermediaries to hold claims for 10 days after the date of receipt during the last 3 months of fiscal year 1988 and for 14 days during fiscal year 1989.

2. *Health maintenance organization (HMO) reforms.*—The act broadens the use of sanctions and civil monetary penalties against HMO's and CMP's, provides for extended supplemental coverage for enrollees of an HMO which terminates its contract, and requires HMO's to notify new enrollees of the possibility that the contract will be terminated in the future. The HMO's option to have Medicare pay directly for hospital services is eliminated, while the option to deposit Medicare payments in a benefit stabilization fund is extended until 1990. The prohibition of physician incentive payments is delayed for 1 year, to April 1990. The waivers for social health maintenance organizations are extended, and other waivers are provided for a variety of organizations in special circumstances.

Finally, the act provides for new capitation demonstrations to test revisions in the rate-setting process and requires a General Accounting Office report on rate methodologies. The administration is permitted to carry out its proposal for demonstrations of contracts with employer-related groups, subject to special restrictions.

3. *Publication of policies.*—The act includes a number of provisions to improve communications between the Secretary, fiscal intermediaries and carriers, and providers. Significant policy changes would be required to be promulgated as regulations, and providers of home health care and other extended services would receive prompt notice of other policy decisions.

4. *Coverage of the disabled.*—The act provides that disabled beneficiaries who cease to receive Social Security disability insurance and who regain disability coverage after a period of employment may resume Medicare coverage without another 2-year waiting period.

5. *Home health care quality improvements.*—The act establishes new conditions of participation and new survey procedures for home health care providers. Exceptions, including leaving home for medical treatment, are created to the requirement that an individual be confined to home in order to be eligible for home health care. A new procedure for appeal of determinations of eligibility for home health care or other extended care is established, along with a toll-free hotline and investigative unit for beneficiary problems. The act includes a demonstration of prospective payment for home health care. It also delays the Secretary's authority to make certain program changes, including requiring prior authorization for

extended care and deeming privately accredited agencies as eligible providers.

6. *Other provisions.*—The act also: (1) makes technical changes in the ESRD program and requires a report on the program from the Secretary; (2) clarifies that government entities are the primary payers for disabled employees who are Medicare beneficiaries; (3) delays the Secretary's plan to use administrative law judges employed by the Health Care Financing Administration, rather than those in the Social Security Administration, to hear Medicare appeals; and (4) establishes rural health medical education demonstration projects.

Part B

1. *Sequester and delay in update.*—The act continues the sequester through Mar. 31, 1988. The physician payment update is delayed until Apr. 1, 1988.

2. *Physician payments.*—The act provides that for the 9-month period beginning Apr. 1, 1988, the increase in the Medicare economic index for participating physicians is 3.6 percent for primary care services and 1 percent for other physicians' services. For nonparticipating physicians, the increase is 3.1 percent for primary care services and 0.5 percent for other services.

For physicians' services furnished in 1989, the percentage increase for participating physicians is 3.0 percent for primary care services and 1.0 percent for other services. For nonparticipating physicians, the increase is 2.5 percent for primary care services and 0.5 percent for other services.

The act provides for a 5-percent incentive payment for primary care services furnished by physicians in class I or II rural health manpower shortage areas effective Jan. 1, 1989. Urban health manpower shortage areas would be included in 1991.

3. *Overpriced procedures.*—The act provides for a 2-percent across-the-board reduction in the prevailing charges for selected overpriced procedures plus an additional reduction of between 0 and 15 percent for physicians in areas with prevailing charges between 85 and 150 percent of the national average effective Apr. 1, 1988. In no case would prevailing charges be reduced below 85 percent of the national average.

The following are the procedures for which reductions are made: Coronary artery bypass surgery; total hip replacement; cataract surgery; transurethral prostatectomy; suprapubic prostatectomy; dilation and curettage; carpal tunnel repair; pacemaker surgery; bronchoscopy; upper gastrointestinal endoscopy; knee arthroscopy; and knee arthroplasty.

The act also limits Medicare reimbursement for ophthalmic ultrasound procedures to 5 percent of the prevailing charge for cataract surgery with intraocular lens implantation.

4. *New physicians.*—The act sets the customary charge for new physicians at 80 percent of the prevailing charge. The provision does not apply to primary care services or to services furnished in rural health manpower shortage areas.

5. *Anesthesia/radiology.*—The act reduces payments to anesthesiologists for concurrent supervision of certified registered nurse anesthetists. It establishes a fee schedule for radiology services pro-

vided by board-certified and board-eligible radiologists or by physicians whose charges for radiologic services account for 50 percent or more of their Medicare charges.

6. *Clinical labs.*—The act makes the following changes to clinical laboratory provisions. There would be no fee schedule update for 1988. The differential between hospital outpatient labs and independent labs would be eliminated except for sole community hospitals. Fee schedule allowances for automated tests and tests subject to the lowest charge provision (except for cytopathology tests) would be reduced by 8.3 percent. The nationwide limit on fee schedule allowances would be reduced to 100 percent of the median of carrierwide fee schedules effective Apr. 1, 1988. The act also establishes intermediate sanctions for labs which no longer substantially meet the conditions of participation for clinical laboratories and requires quality certification of high-volume physician office labs effective in 1990.

7. *Durable medical equipment.*—The act establishes a 1-year freeze on durable medical equipment payment screens effective Jan. 1, 1988, at the levels in effect on Dec. 31, 1987. Beginning in 1989 a new payment mechanism, based on fee schedules, is established for durable medical equipment, prosthetic devices, orthotics, and prosthetics.

8. *Payments to hospital outpatient departments for radiology.*—The act contains a limit on aggregate payments for hospital outpatient radiology departments based on payment screens for comparable services provided in physicians' offices.

9. *Coinsurance for ambulatory surgery.*—The act does not include an increase in the part B deductible. It does include restoration of beneficiary cost sharing for physician services provided in ambulatory surgical centers.

10. *Part B premium.*—The act extends for 1 year through calendar year 1989 the current 25 percent payment provision.

11. *Influenza.*—The act directs the Secretary to conduct a major demonstration project to evaluate the cost effectiveness of providing influenza vaccines to aged Medicare beneficiaries.

12. *Therapeutic shoes.*—The act provides for a demonstration project concerning coverage of therapeutic shoes for individuals with diabetic foot disease.

13. *Mental health.*—The act increases the maximum payment for mental health services to $450 in 1988 and $1,100 in 1989.

Medicare and Medicaid nursing home standards reform

1. *Nurse staffing.*—The act retains Medicare's current nurse staffing and registered nurse requirements and the waiver provisions applying to the RN requirement. For Medicaid, the act requires as of Oct. 1, 1990, that all SNF's and ICF's, in urban and rural areas, provide 24-hour licensed practical nurse care 7 days a week, with at least one RN employed 7 days a week, 8 hours a day. The act authorizes States to waive the RN and LPN requirements if (1) the institution demonstrates to the satisfaction of the State that it has been unable, despite diligent efforts (including offering wages at the prevailing rates at other nursing facilities), to recruit appropriate personnel, and (2) the State determines that a waiver of the requirement will not endanger the health or safety of indi-

viduals staying in the institution. The act also authorizes the Secretary to exercise States' authority to grant such waivers if the Secretary finds, based on a clear pattern and practice of allowing waivers in the absence of diligent efforts, that a State had abused its discretion.

2. *Social workers.*—The act requires facilities with more than 120 beds to employ full-time at least one social worker (with at least a bachelor's degree in social work or similar professional qualifications).

3. *Nurse aide training.*—The act requires nurse aides to complete a training and competency evaluation or separate competency evaluation program. Nursing facilities may not use an individual as a nurse aide after Jan. 1, 1990, who has not completed or is enrolled in such a program approved by the State. The Secretary's standards for nurse aide training must include a minimum of 75 hours of initial training.

4. *Activities program professionals.*—The act requires that the facility's on-going program of activities be directed by a qualified professional.

5. *Nursing facility administrators.*—The act requires the Secretary to establish standards for nursing facility administrators.

6. *Transfers and discharge requirements.*—The act applies transfer and discharge requirements to all transfers and discharges.

7. *Nurse aide registry.*—The act requires establishment of a nurse aide registry and that the State provide through the survey and certification agency for a process for the investigation of allegations of resident neglect and abuse (including the misappropriation of personal funds) by a nurse aide. A nurse aide so accused would be granted an opportunity for a hearing before the State survey and certification agency. No nurse aide's name would be placed on the registry until the individual had been notified of the right of a hearing, and either a hearing had taken place and the allegations had been substantiated, or the individual had waived, after being given a reasonable opportunity, his/her right to a hearing.

8. *Survey and certification.*—The act expands the standard survey to include a review of residents' rights and requires the Secretary to conduct validation surveys with respect to no fewer than 5 percent of the facilities surveyed by the State in a year, but in no case less than five facilities in a State.

9. *Enforcement.*—The act establishes Federal and State intermediate sanctions and provides that only Federal intermediate sanctions be applied to Medicare skilled nursing facilities.

Peer review organization provisions

The act authorizes 3-year PRO contract periods with staggered expiration dates; requires that a preliminary notice of denial be sent to providers and practitioners 20 days before a denial could become effective; requires publication in the Federal Register of specified information on PRO contracts; encourages competition for contracts held by out-of-State PRO's which are subject to renewal; prohibits physicians, in the case of assigned claims, from billing Medicare beneficiaries for payments denied on substandard quality grounds; requires PRO's, in establishing review standards, to take into account the special problems associated with delivering care in remote rural areas, the availability of service alternatives to inpatient hospitalization, and social factors that could adversely effect the safety or effectiveness of outpatient treatment; requires PRO's to perform substantial on-site review in 20 percent of the rural hospitals in the PROs' areas; requires PRO's to meet several times each year with hospital medical and administrative staff about PRO review; requires PRO's to determine whether health maintenance organizations or competitive medical plan enrollees have adequate access to health care services, and to require beneficiary outreach programs; requires that initial PRO review of psychiatric and physical rehabilitation services be made by physicians with corresponding specialties; requires the Secretary to establish demonstration projects on instruction and oversight through video communications; entitles providers or practitioners, in rural health manpower shortage areas and in counties with a population of less than 70,000, to a hearing before an administrative law judge prior to temporary exclusion from the Medicare program for reasons of substandard quality; and requires the Secretary to report to Congress on improving procedures for imposing sanctions.

THE MEDICARE CATASTROPHIC COVERAGE ACT OF 1988 [1]

Benefits

The provisions of the act change Medicare's benefit structure significantly, but retain most current limits on preventive services and long-term care. Table 37 gives a detailed comparison of benefits before and after full implementation of the act.

The Congressional Budget Office (CBO) has estimated that new Medicare benefit and administrative costs for fiscal years 1989 through 1993 will total $30.8 billion. According to these estimates, about 34 percent of the 5-year increase in payments for enrollees will be for HI benefits, 50 percent will be for SMI benefits, and 16 percent will be for drug benefits (see table 38).[3]

Some Medicare enrollees will benefit as well from provisions under the act that expand Medicaid benefits. In particular, the act requires that, by 1992, Federal-State Medicaid programs pay Medicare premium and copayment costs for those eligible for part A benefits who are poor, even though they are not otherwise eligible for Medicaid benefits. In other words, States will be required to "buy in" this group of enrollees, where previously States had the option to do so. This benefit will be phased in, with Medicaid required to buy in all those below 85 percent of the poverty line in 1989, 90 percent in 1990, 95 percent in 1991, and 100 percent in 1992 and subsequent years. The additional costs to Medicaid from the buy-in requirement will be largely offset by savings arising from the expansion of Medicare benefits. Because of the Medicare expansion, some costs currently paid by Medicaid for beneficiaries also eligible for Medicare will be picked up by Medicare.

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[1] This subsection draws heavily upon a CBO staff working paper entitled "The Medicare Catastrophic Coverage Act of 1988" and a Congressional Research Service Issue Brief entitled "Catastrophic Health Insurance: Medicare". The projections in this subsection are drawn from the June 1988 CBO final cost estimate of the Medicare Catastrophic Coverage Act of 1988.

TABLE 37.—COMPARISON OF MEDICARE BENEFIT STRUCTURE BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100–360

Provision	Before implementation	After implementation
	Hospital insurance (part A) [1]	
Coverage	Hospital inpatient acute care. Short-term skilled nursing care Intermittent home health care. Hospice care for terminally ill.	Same, with changes noted below.
Limits	Hospital stays limited to 90 days per spell of illness, plus up to 60 lifetime reserve days (with lifetime limit of 190 days for inpatient psychiatry).	No limit on covered inpatient days (except for psychiatric care where 190-day limit remains).
	SNF stays limited to 100 days per spell, covered only subsequent to hospital stay of at least 3 days.	SNF limit changed to 150 days a year, and no prior inpatient stay required for coverage.
	Lifetime limit of 210 days for hospice	No limit on hospice days.
	Consecutive days of home health care limited to 21.	Consecutive days of home health care limited to 38.
Deductibles	Inpatient deductible for first stay each spell	Deductible for first stay each year.
	Blood deductible up to 3 units each spell	Blood deductible up to 3 units a year.
Coinsurance	Hospital coinsurance paid for days 61–90 (¼ deductible) and for reserve days (½ deductible).	No hospital coinsurance.
	SNF coinsurance paid for days 21–100 (⅛ deductible).	SNF coinsurance paid for days 1–8 each year.
	Hospice coinsurance of 5% of drug/respite charges.	(20% of daily cost).
	Supplementary medical insurance and catastrophic insurance (part B)	
Coverage	Physicians' services Hospital outpatient departments Ambulatory surgicenters.	SMI program expanded to cover screening mammography and respite care.
	Laboratory services Intermittent home health care. Drugs for transplant patients (1 year only).	New Part B drug program introduced to cover prescription drugs and insulin.
Limits	Prevent services generally not covered. Reimbursement limit of $1,100 a year for outpatient psychiatric services.	Respite care limited to 80 hours a year, and available only to those who exceed SMI copayment cap or drug deductible in the previous 12 months.
Deductible	Annual SMI deductible of $75	Same, plus separate drug deductible set to affect 16.8% of enrollees.
Coinsurance	Coinsurance of 20% of reasonable charges above deductible amount (50% for outpatient psychiatry).	Same, subject to SMI copayment cap.
Copayment cap	None	SMI copayment cap set to affect 7% of enrollees. No drug copayment cap.

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[1] The act eliminated the spell of illness concept. A spell of illness began with a hospital admission and ended on the 61st day following discharge from the hospital or from a SNF entered subsequent to the hospital stay.

Source: Congressional Budget Office.

TABLE 38.—NEW MEDICARE COSTS UNDER PUBLIC LAW 100-360

[By fiscal year, in millions of dollars]

Provision	1989	1990	1991	1992	1993	1989-93
Hospital Insurance						
No limit on hospital days	191	311	353	386	422	1,663
No hospital coinsurance	341	544	609	660	714	2,868
Maximum of 1 HI deductible	290	464	521	566	613	2,454
Spell of illness hold harmless	119	61	0	0	0	180
Yearend protection on HI deductible	0	6	10	11	12	39
Maximum of 3 for blood deductible	6	9	10	11	12	48
No 3-day prior stay for SNF	40	51	61	72	82	306
SNF to 150 days, 20 percent coinsurance first 8 days	219	347	387	417	449	1,819
No limit on hospice days	1	1	1	1	1	5
Home health to 38 consecutive days	0	126	182	194	208	710
Subtotal	1,207	1,920	2,134	2,318	2,513	10,092
Supplementary Medical Insurance						
SMI copayment cap	0	1,990	3,289	3,861	4,362	13,502
Screening mammography	0	81	127	140	149	497
Respite care [1]	0	53	127	207	329	716
Subtotal	0	2,124	3,543	4,208	4,840	14,715
Catastrophic Drug Insurance						
Drug coverage	0	38	765	1,621	2,455	4,879
Total Medicare benefits	1,207	4,083	6,442	8,147	9,807	29,686
Total administrative costs	105	145	215	278	329	1,072
Total	1,312	4,228	6,657	8,425	10,136	30,758
Copayment cap (projected after 1990)		1,370	1,530	1,700	1,900	
Percent of enrollees exceeding the cap		7.0	7.0	7.0	7.0	
Drug deductible (projected after 1992)		550	600	652	710	
Percent of enrollees exceeding the deductible		.2	16.8	16.8	16.8	

[1] Only enrollees exceeding either copayment cap or drug deductible would be eligible for this benefit.

Source: Congressional Budget Office projections, as of June 1988.

Two additional Medicaid benefits under the act do not interact with Medicare provisions. First, States will be required to allow spouses of nursing home residents seeking Medicaid coverage to retain more income than previously, to protect against spousal impoverishment. Second, Medicaid benefits will be extended to all pregnant women and infants living in families with incomes below the poverty line.

Financing

The cost of new Medicare benefits will be financed by additional premiums paid by enrollees. If Congressional Budget Office projections of costs and enrollees' tax liabilities are realized, 37 percent of new Medicare costs will be covered by additional fixed monthly premiums paid by all part B enrollees. The remaining 63 percent of costs will be covered by new income-related supplemental premiums. The supplemental premium will be payable by all those eligible for part A benefits for at least 6 months of the year who have at least $150 in annual tax liability and who reside in 1 of the 50 States or the District of Columbia. Liability for the monthly premium could be avoided by disenrolling from part B; liability for the supplemental premium would be unaffected by disenrollment. B-only enrollees and residents of the territories or commonwealth will pay only a monthly premium for new benefits, with rates based on the insurance value of the new benefits provided to them.

For 1989 through 1993, the new monthly and supplemental premium rates are set by law, at levels sufficient to cover projected costs plus a contingency margin to allow for projection error. For 1994 and subsequent years, rates will be increased from the previous year based on the historical growth in costs. For example, the increase in 1994 rates over 1993 values will reflect growth in costs for 1992 over 1991. In addition, rates will incorporate an adjustment to correct for inadequate or excess receipts in previous years, based on account balances at the end of the preceding year. That is, the administration will look back to account balances at the end of 1992 in setting 1994 rates.

In 1989, part B enrollees will pay a new monthly premium of $4.00 for new benefits under the act, in addition to the basic SMI premium for a total part B premium of $31.90. As new benefits are phased in, the new monthly premium will increase annually, reaching a value of $10.20 in 1993, when the total monthly part B premium is projected to be $42.60 (see table 39).

TABLE 39.—MEDICARE PREMIUMS PAYABLE PER ENROLLEE UNDER PUBLIC LAW 100–360

[By calendar year]

	1988	1989	1990	1991	1992	1993
MONTHLY PREMIUMS (per enrollee)						
Payable to catastrophic account		$4.00	$4.90	$5.46	$6.75	$7.18
Payable to drug trust fund		0	0	1.94	2.45	3.02
New premium (in law)		4.00	4.90	7.40	9.20	10.20
Current law premium (projected)	$24.80	27.90	29.00	30.40	31.90	33.40
Total (projected)	24.80	31.90	33.90	37.80	41.10	43.60
SUPPLEMENTAL PREMIUMS (annual surtax rates [1])						
Payable to catastrophic account (percent)		15.0	18.1	20.1	20.4	19.7
Payable to drug trust fund (percent)		.0	6.9	5.9	6.6	8.3
Total percent (in law)		15.0	25.0	26.0	27.0	28.0
Maximum annual liability per enrollee		$800	$850	$900	$950	$1,050
Percent of enrollees paying maximum		5.1	8.1	8.8	9.4	9.8
Percent of enrollees paying		35.6	37.1	39.0	40.8	42.5
Average annual payment for those paying		$285	$400	$430	$461	$506
AVERAGE ANNUAL MEDICARE PREMIUMS PAYABLE (per enrollee)						
For enrollees with no supplemental liability		373	398	445	482	511
For enrollees with supplemental liability		658	798	875	943	1,017
For all enrollees		475	547	613	670	726

[1] Per dollar of tax liability. In law, rates are shown per $150 of tax liability

Sources: Congressional Budget Office for monthly information as of February 1989; Joint Committee on Taxation for supplemental premium information, as of June 1988.

In addition, in 1989 an estimated 36 percent of part A enrollees will be liable for the supplemental premium, in the form of a 15 percent income surtax (a tax on tax liability) for those with at least $150 of annual tax liability. Each enrollee's maximum supplemental liability will be limited by a ceiling, however, set at $800 for 1989. An estimated 5 percent of enrollees will pay this maximum amount in 1989. The supplemental rate will increase annually, reaching a value of 28 percent in 1993 (see table 39). If only one in the couple is eligible for HI benefits, the supplemental rate will apply to that person's half of tax liability, subject to the ceiling of $800 in 1989. If both are eligible for HI benefits, the rate will apply to the couple's tax liability, subject to a ceiling of $1,600 in 1989.

If current trends in cost growth continue, the new monthly premium would have to increase by about 10 percent annually in years after 1993 to keep pace with cost growth. By contrast, the supplemental rate could perhaps be held constant after 1993 (although the maximum liability would increase) because automatic growth in enrollees' supplemental liability may be sufficient to cover cost growth without further rate increases. The act prohibits reductions in both monthly and supplemental rates, and limits increases in the supplemental rate to at most one percentage point a year after 1993. There is no limit on increases in monthly premium rates after 1993.

Persons with Governmental Annuities.—For purposes of calculating the supplemental premium, a special adjustment is made for persons with taxable governmental annuities (including Federal, State, and local annuities) and little or no social security income. This adjustment is designed to make the supplemental premiums for retirees with taxable governmental annuities more comparable to the premiums of retirees whose annuities are composed primarily of nontaxed social security benefits.

The adjustment takes the form of a reduction to the individual's tax liability amount solely for the purpose of calculating the supplemental premium. The reduction is calculated as follows for 1989:

—Take the lesser of (a) $6,000 ($9,000 for a joint return), or (b) the amount of the taxable governmental annuity,
—subtract any social security benefits,
—multiply the result by 15 percent, and
—subtract the tax credit for the elderly and the disabled, if taken.

The resulting amount is then subtracted from the individual's tax liability, which forms the basis for the calculation of the supplemental premium. (After 1989, the $6,000 and $9,000 amounts will be increased by the social security cost-of-living adjustment.)

For example, in 1989 for a single Medicare beneficiary with a Federal annuity of $14,000, social security benefits of $4,000, and who is not eligible for the tax credit for the elderly and the disabled, the reduction to their tax liability for purposes of calculating the supplemental premium would be:

$$\$6{,}000 - \$4{,}000 = \$2{,}000 \times 15\% = \$300$$

In effect, this $300 reduction would result in a $45 reduction in the supplemental premium in 1989 (i.e., $300 divided by 150 = 2 x $22.50 = $45).

The maximum amount that could be subtracted from anyone's tax liability to calculate the supplemental premium for 1989 would be $900 for an individual, or $1,350 for a couple (both eligible for Medicare) filing a joint return. These reductions would result in maximum supplemental premium reductions of $135 for an individual, and $202.50 for a joint return.

Other provisions

Medigap Policies.—The Act amends procedures for Federal certification of Medigap policies. If the National Association of Insurance Commissioners (NAIC) revises its standards within 90 days of enactment, those standards will apply for purposes of Federal certification. If the NAIC does not, the Secretary is required to issue Federal model standards to take effect a year later. Policies sold before enactment, but still in effect on January 1, 1989, will not be deemed to duplicate Medicare's new benefits if they comply with the NAIC model transition rule which provides for refunds, or premium adjustments, when appropriate, for duplicative portions. Requires a one-time notice to be sent to policyholders by January 1, 1989, on the new benefits, how they affect the policy's benefits and premiums, and any adjustments that will be made.

Maintenance of Effort.—Any employer who provides health benefits to an employee or retired former employee (including State and local employees) that duplicate at least 50 percent of the new or improved Part A and Part B benefits would have to provide additional benefits or refunds that total at least the actuarial value of the duplicative benefits. The provision is effective with respect to Part A benefits in 1989 and Part B benefits in 1990 except that an extension is provided to cover current collective bargaining agreements.

Federal Employees.—The Act requires the Director of the Office of Personnel Management (OPM) to reduce, effective January 1, 1989, the rates charged to Medicare-eligible individuals participating in the Federal Employee Health Benefits Program (FEHBP) to reflect the amounts that would have been paid by those plans except for the enactment of this bill. OPM is also required to conduct a study of changes to FEHBP that might be required to incorporate plans designed specifically for Medicare-eligible individuals.

TABLE 40.—COMPARISON OF CONGRESSIONAL AND ADMINISTRATION ESTIMATES OF PUBLIC LAW 100–360

[By fiscal year, in millions of dollars]

	1989	1990	1991	1992	1993	1989–93
CONGRESSIONAL ESTIMATES (Congressional Budget Office and Joint Committee on Taxation)						
Medicare nondrug provisions:						
Benefits/administrative costs	1,280	4,096	5,730	6,575	7,404	25,085
Monthly premiums	−1,106	−1,810	−2,120	−2,601	−2,909	−10,545
Supplemental premiums	−315	−3,857	−3,644	−4,346	−4,799	−16,960
Subtotal	−141	−1,570	−34	−371	−304	−2,420
Medicare drug provisions:						
Benefits/administrative costs	32	132	927	1,850	2,732	5,673
Monthly premiums	0	−3	−582	−970	−1,212	−2,767
Supplemental premiums	0	−390	−1,278	−1,318	−1,712	−4,699
Subtotal	32	−261	−933	−438	−192	−1,793
Medicaid/other health provisions:						
Offsets from Medicare provisions	−45	−247	−398	−495	−605	−1.790
Medicaid buyin for Medicare	106	231	435	591	665	2,028
Spousal protection	−6	358	339	210	229	1,130
Pregnant women/infants	5	50	125	160	195	535
OBRA–87 technical amendments/other	−15	−4	0	8	11	0
Net Medicaid/other health provisions	45	388	501	474	495	1,903
Net budget effect	−64	−1,444	−466	−335	−1	−2,310
ADMINISTRATION ESTIMATES (Health Care Financing Administration and Treasury)						
Medicare nondrug provisions:						
Benefits/administrative costs	1,156	3,750	5,980	7,267	8,179	26,332

TABLE 40.—COMPARISON OF CONGRESSIONAL AND ADMINISTRATION ESTIMATES OF PUBLIC LAW 100–360—Continued

[By fiscal year, in millions of dollars]

	1989	1990	1991	1992	1993	1989–93
Monthly premiums	−1,163	−1,839	−2,130	−2,614	−2,918	−10,664
Supplemental premiums	−388	−4,191	−4,364	−4,854	−5,143	−18,940
Subtotal	−395	−2,280	−514	−201	118	−3,272
Medicare drug provisions: [1]						
Benefits/administrative costs	0	97	1,583	NA	NA	NA
Monthly premiums	0	0	−593	−957	−1,203	−2,753
Supplemental premiums	0	−266	−1,580	−1,454	−1,775	−5,075
Subtotal	0	−169	−590	NA	NA	NA
Net Medicaid/other health provisions	125	495	605	770	1,030	3,025
Net budget effect	−270	−1,954	−499	NA	NA	NA

[1] Administration estimates indicate drug trust fund would be exhausted in 1992.

Sources: Congressional Budget Office and Office of Management and Budget, as of June 1988.

PORTION OF MEDICARE FINANCED DIRECTLY BY MEDICARE BENEFICIARIES

Calculating the portion of Medicare financed directly by Medicare beneficiaries can be performed in a variety of ways under many different assumptions. Essentially, the methodology employed in this subsection compares the 1989 value of Medicare contributions (both payroll taxes with accumulated interest, and premiums discounted back to 1989) to the discounted 1989 value of Medicare insurance benefits. The analysis is performed for a male and female with average life expectancies upon reaching age 65, at three different earnings levels. The average life expectancy at age 65 for a male is 15 years and for a female 19.5 years.

The following specific assumptions were made in this analysis. The earnings streams are for an individual with yearly wages equal to the Federal minimum wage, for an "average" wage earner (earnings equal to the SSA average wage index), and for an individual with earnings equal to the Social Security taxable maximum (see table 5 in Section 1—the Old-Age and Survivors Insurance program (OASI)). Both employee and employer payroll taxes are included, with interest earned at the Moody's Aaa corporate bond rate. Two assumptions are made. The primary analysis assumes after-tax interest accumulations. The marginal tax rate for the minimum wage earner is assumed to be 0, 15 percent for the average wage earner, and 28 percent for the maximum wage earner. The bottom portion of table 41 assumes interest accumulates without taxes deducted. Individuals are assumed to work from 1966 (or any year prior) through 1988, and to retire at the beginning of 1989 at age 65. See table 42.

The insurance value of Medicare (before passage of the catastrophic bill) is $3,130 in 1989. Based on CBO estimates made in their August 1988 paper entitled "The Medicare Catastrophic Coverage Act of 1988," the insurance value of basic benefits increases to $4,511 in 1993. The analysis assumes that it grows at the rate of 10 percent per year thereafter.

The CBO paper also provides the insurance value of the catastrophic benefits and the level of new premiums for calendar years 1989 through 1993. The maximum and flat premiums under the catastrophic program are assumed in this analysis to increase at 10 percent per year after 1993. Minimum and average wage earners are assumed not to pay the maximum supplemental premium. The basic Medicare Part B premium is $27.90 per month in 1989 ($355 annually), and the analysis assumes that it increases after 1989 at a rate of 4 percent per year. These values are displayed in table 43.

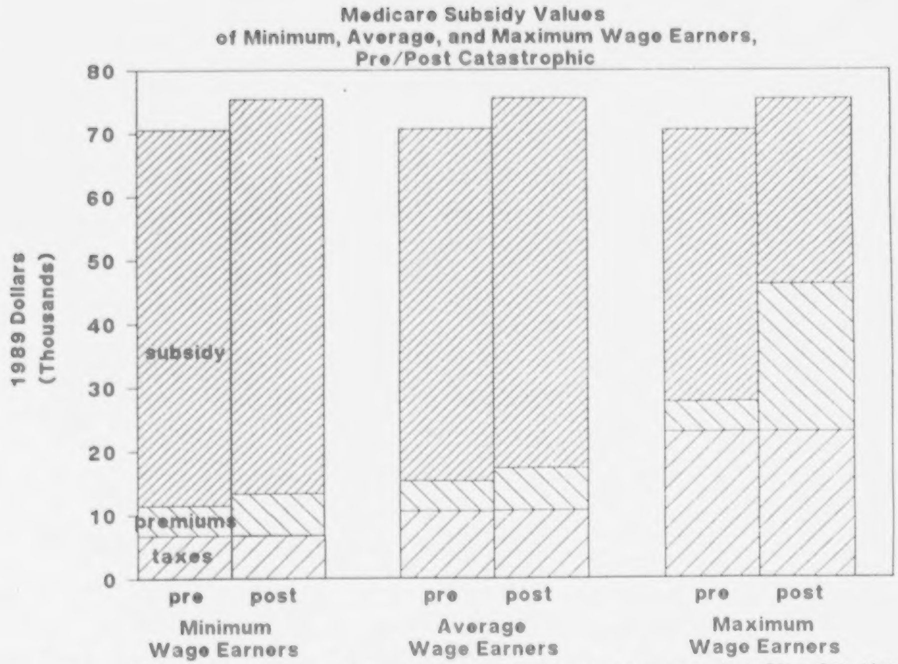
Benefit and premiums after 1989 are discounted at a rate of 6.5 percent year (combining a 4 percent inflation assumption with a 2.5 percent real interest rate assumption).

Table 41 and chart 1 display the results of the analysis. Payroll taxes plus interest equal $10,544 for a worker with average earnings. Before passage of the catastrophic health insurance legislation, Medicare premiums paid during retirement equalled $4,275 for a male and $5,287 for a female. The present value of Medicare benefits equalled $58,692 for a male and $82,565 for a female. Subtracting taxes and premiums from benefits yields the portion paid by the general taxpayer. This equalled approximately $44,000 for a male with average earnings, and $67,000 for a female with average earnings. Thus, about 75 percent of Medicare benefits for a male, and 80 percent for a female, were unearned (reimbursed from general revenues or someone else's payroll taxes) before enactment of catastrophic legislation.

With the enactment of catastrophic health insurance legislation, benefits for the average male increase by $3,910 and contributions increase by $1,510. Average earners, who are assumed to pay no supplemental premiums, face a flat premium increase equal to 39 percent of their benefit increase. This is slightly higher than the expected 37 percent figure because taxes were front-loaded to build up trust fund revenues.

For maximum earners (those who paid maximum payroll taxes throughout their careers plus pay the maximum supplemental premiums during retirement), Medicare benefits far exceed taxes and premiums paid directly by beneficiaries. Prior to the enactment of the catastrophic bill, lifetime benefits in excess of taxes and premiums were $31,500 for the male and $54,360 for the female. This was reduced by the legislation by $11,400 for the male and $15,900 for the female. Nevertheless, for high income retirees, the value of Medicare exceeds taxes by $1,650 per year and represents a subsidy of approximately 38 percent of benefits (average of male and female cases). The chance that an elderly couple is in a situation where both individuals in the couple have a history of high pre-retirement income and high post-retirement income is very small.

CHART 1



Note: Chart illustrates lifetime value of medicare insurance benefits for three wage earner individuals retiring in 1989. Taxes (both employer and employee with after-tax interest) compared to discounted streams of premiums and insurance values. See text.

TABLE 41.—MEDICARE TAXES/PREMIUMS AND BENEFITS AND PORTION OF MEDICARE NOT FINANCED DIRECTLY BY MEDICARE BENEFICIARIES BEFORE AND AFTER PASSAGE OF THE CATASTROPHIC HEALTH INSURANCE ACT

	Male			Female		
	Minimum earner	Average earner	Maximum earner	Minimum earner	Average earner	Maximum earner
1. Taxes/Premiums [1]:						
Present value of taxes paid	$6,740	$10,544	$22,919	$6,740	$10,544	$22,919
Present value of premiums paid:						
Pre-catastrophic	$4,275	$4,275	$4,275	$5,287	$5,287	$5,287
Post-catastrophic	$5,785	$5,785	$19,572	$7,444	$7,444	$26,788
Total, pre-catastrophic	$11,015	$14,819	$27,194	$12,027	$15,831	$28,206
Total, post-catastrophic	$12,525	$16,329	$42,490	$14,184	$17,988	$49,707
2. Benefits—Present value:						
Pre-catastrophic	$58,692	$58,692	$58,692	$82,565	$82,565	$82,565
Post-catastrophic	$62,602	$62,602	$62,602	$88,180	$88,180	$88,180

TABLE 41.—MEDICARE TAXES/PREMIUMS AND BENEFITS AND PORTION OF MEDICARE NOT FINANCED DIRECTLY BY MEDICARE BENEFICIARIES BEFORE AND AFTER PASSAGE OF THE CATASTROPHIC HEALTH INSURANCE ACT—Continued

	Male			Female		
	Minimum earner	Average earner	Maximum earner	Minimum earner	Average earner	Maximum earner
3. Portion of Medicare not financed directly by Medicare beneficiaries: [1]						
Lifetime:						
Pre-catastrophic	$47,677	$43,873	$31,498	$70,538	$66,734	$54,360
Post-catastrophic	$50,077	$46,273	$20,112	$73,995	$70,191	$38,473
Annual (Lifetime divided by average life expectancy):						
Pre-catastrophic	$3,178	$2,925	$2,100	$3,617	$3,422	$2,788
Post-catastrophic	$3,338	$3,085	$1,341	$3,795	$3,600	$1,973
4. Percent of Medicare not financed directly by Medicare beneficiaries: [1]						
Pre-catastrophic	81	75	54	85	81	66
Post-catastrophic	80	74	32	84	80	44
5. Percent of Medicare not financed directly by Medicare beneficiaries: [2]						
Pre-catastrophic	81	69	48	85	77	62
Post-catastrophic	80	68	27	84	76	40

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[1] Assumes after-tax interest accumulations.

[2] Assumes interest accumulations without taxes deducted.

TABLE 42.—TAXES, EARNINGS AND CUMULATIVE CONTRIBUTIONS WITH AFTER-TAX INTEREST

Year	Moody's Aaa rat	Tax rate [1]	Earnings			Cumulative contribution with after-tax interest		
			Minimum	Average	Maximum	Minimum	Average	Maximum
1966	1.0513	.007	$2,600	$4,938	$6,600	$18	$35	$46
1967	1.0551	.010	2,886	5,213	6,600	48	88	114
1968	1.0618	.012	3,293	5,572	7,800	91	159	214
1969	1.0703	.012	3,328	5,894	7,800	137	238	320
1970	1.0804	.012	3,328	6,186	7,800	188	326	436
1971	1.0739	.012	3,328	6,497	7,800	242	421	557
1972	1.0721	.012	3,328	7,134	9,000	299	528	699
1973	1.0744	.020	3,328	7,580	10,800	388	708	959
1974	1.0857	.018	3,883	8,031	13,200	491	897	1,267
1975	1.0883	.018	4,368	8,631	14,100	613	1,109	1,615

TABLE 42.—TAXES, EARNINGS AND CUMULATIVE CONTRIBUTIONS WITH AFTER-TAX INTEREST—Continued

	Moody's		Earnings			Cumulative contribution with after-tax interest		
Year	Aaa rate	Tax rate	[1] Minimum	Average	Maximum	Minimum	Average	Maximum
1976	1.0843	.018	4,784	9,226	15,300	751	1,342	2,007
1977	1.0802	.018	4,784	9,779	16,500	897	1,596	2,440
1978	1.0873	.020	5,512	10,556	17,700	1,085	1,907	2,976
1979	1.0963	.021	6,032	11,479	22,900	1,317	2,280	3,700
1980	1.1194	.021	6,448	12,513	25,900	1,609	2,739	4,619
1981	1.1417	.026	6,968	13,773	29,700	2,019	3,377	5,948
1982	1.1379	.026	6,968	14,531	32,400	2,478	4,090	7,488
1983	1.1204	.026	6,968	15,239	35,700	2,958	4,841	9,182
1984	1.1271	.026	6,968	16,135	37,800	3,515	5,703	11,157
1985	1.1137	.027	6,968	16,823	39,600	4,102	6,624	13,304
1986	1.0902	.029	6,968	17,322	42,000	4,674	7,557	15,542
1987	1.0938	.029	6,968	17,857	43,800	5,315	8,585	18,052
1988	1.1040	.029	6,968	18,611	45,000	6,070	9,768	20,953
1989	1.1104	NA	NA	NA	NA	6,740	10,544	22,919

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[1] Both employer and employee portion.

TABLE 43.—BENEFITS AND PREMIUMS (10 PERCENT GROWTH SCENARIO)

Pre-catastrophic	Medicare benefits	Catastrophic benefits	Total benefits	Current law flat monthly premiums	Monthly flat catastrophic premiums	Catastrophic maximum supplemental premium
1989	$3,130	$62	$3,192	$335	$48	$800
1990	3,453	171	3,624	348	59	850
1991	3,770	238	4,008	362	89	900
1992	4,129	271	4,400	377	110	950
1993	4,511	322	4,833	392	122	1,050
1994	4,962	354	5,316	407	135	1,155
1995	5,458	390	5,848	424	148	1,271
1996	6,004	429	6,433	441	163	1,398
1997	6,605	471	7,076	458	179	1,537
1998	7,265	519	7,784	477	197	1,691
1999	7,992	570	8,562	496	217	1,860
2000	8,791	627	9,418	515	239	2,046
2001	9,670	690	10,360	536	262	2,251
2002	10,637	759	11,396	557	289	2,476
2003	11,700	835	12,536	580	317	2,723
2004	12,870	919	13,789	603	349	2,996
2005	14,157	1,011	15,168	627	384	3,295
2006	15,573	1,112	16,685	652	423	3,625
2007	17,131	1,223	18,353	678	465	3,987
2008	9,422	673	10,094	353	256	2,193
PV, male	58,692	3,910	62,602	4,275	1,510	13,787
PV, female	82,565	5,614	88,180	5,287	2,157	19,344

REPORTS AND STUDIES

The following is a list of studies and reports required by law which are either past due or to be concluded in the next 3 years.

Topic	Due date
Secretary of HHS to report with legislative recommendations on demonstration project to determine (1) the extent to which the commencement of nutritional therapy in early renal failure can retard or arrest the progression of the disease and the administrative, financial, and other aspects of making such nutritional therapy generally available under medicare. (Section 958(h), Public Law 96-499).	December 5, 1982.
Secretary of HHS to conduct and promptly complete all studies and experiments required under present law which pertain to the use of, and reimbursement for, nutritional therapy; and that the Secretary transmit a full and complete report with respect to each study and experiment. (Public Law 97-35).	January 1, 1983.
Secretary of Health and Human Services shall report to the Committee on Ways and Means and the Committee on Finance on proposals developed for prospective reimbursement of skilled nursing facilities under medicare (as required under sec. 1135(c) of the Social Security Act. (Sec. 2319(f)(1), Public Law 98-369; H.R. 4170).	August 1, 1984.
Secretary of Health and Human Services shall conduct a study and report to the Congress on higher medicare payment rates for sole community hospitals as a result of needed expansion of services at such hospitals. (Sec. 9111(c), Public Law 99-272; H.R. 3128).	December 31, 1986.
The Congressional Budget Office shall study and report to Congress on the impact of the implementation of section 9105 of P.L. 99-272 on hospitals with respect to payments for hospitals which serve a disproportionate share of low-income patients. (Section 9105(d)), Public Law 99-272.	January 1, 1987.
Comptroller General shall report to the Congress on the appropriateness of fee schedules under sec. 1833(h) of the Social Security Act—clinical diagnostic laboratory tests—their impact on the volume and quality of such tests. (Sec. 2303(i) (1) and (3), Public Law 98-369; H.R. 4170).	January 1, 1987.
Secretary of Health and Human Services after consultation with the Physician Payment Review Commission, shall develop recommendations and guidelines, and report to the Congress, respecting surgical procedures for which an assistant at surgery is generally not medically necessary and the circumstances under which the use of an assistant at surgery is generally appropriate but should be subject to prior approval of an appropriate entity. (Sec. 9307(d), Public Law 99-272; H.R. 3128).	January 1, 1987.
Secretary of HHS shall report to Congress on the frequency and distribution of denials of bills for payment for extended care services, home health services, and hospice care, because care was not reasonable and necessary or was custodial, and other information needed to evaluate the appropriateness of denial rates established for a favorable presumption. (Section 9305(g)(2)), Public Law 99-509.	March 31, 1987.
Secretary of HHS shall report to Congress on the standards that might be established under the medicare program for clinical laboratories which are part of or associated with a physician's office to assure the health and safety of individuals with respect to whom the laboratories perform clinical diagnostic laboratory tests for which payment may be made under the program. (Section 9303(C)), Public Law 99-272.	April 7, 1987.
National Center for Health Services Research and Health Care Technology shall conduct a study and report to the House Committees on Ways and Means, Energy and Commerce, and Appropriations and the Senate Committees on Finance, and Appropriations with respect to the findings of the patient outcome assessment research program. (Sec. 9316(a), Public Law 99-509; H.R. 5300).	April 21, 1987.

Topic	Due date
Secretary of HHS shall report to Congress on the development of a relative value scale for physician services that establishes a numerical relationship among the various physicians' services for which medicare and medicaid payments are made. (Section 9305(b)), Public Law 99–272.	July 1, 1987.
The Comptroller General shall conduct a study of the variation in the amounts of payments made under title XVIII of the Act with respect to patients in different teaching hospital settings and in the amounts of such payments which are made with respect to patients who are treated in teaching and nonteaching hospital settings. (Section 9202(d)), Public Law 99–272.	December 31, 1987.
Secretary of HHS shall report to Committee on Finance of the Senate and Committees on Ways and Means and Energy and Commerce of the House of Representatives on whether section 1886(h) of the Act should be revised to provide greater uniformity in the approved FTE resident amounts established under paragraph 2 of the Act. (Section 9202(e)), Public Law 99–272.	December 31, 1987.
Secretary of HHS shall provide for a study to evaluate the effects of reductions in the rates of payment for facility and physician services' under the medicare program for patients with end stage renal disease on their access to care or on the quality of care. (Section 9335(b)), Public Law 99–509.	January 1, 1988.
Secretary of HHS shall report to Congress on the types of physician arrangement plans commonly in use by HMOs and CMPs, and evaluate their potential to limit or reduce medical services, and make recommendations regarding appropriate plans which may encourage efficiency in utilization of services without posing a potential for an adverse effect on quality. (Section 9313(c)(3)), Public Law 99–509.	January 1, 1988.
Secretary of HHS is directed to report to Congress with respect to the use of stabilization funds by eligible organizations under section 1876(g)(5) of the Act and shall assess the need for such funds. (Section 2350(b)(4)), Public Law 98–369.	January 18, 1988.
The Comptroller General shall study and report to Congress on the appropriateness and impact on medicare beneficiaries of applying per visit home health agency cost limits on a discipline-specific basis, rather than on an aggregate basis; and the appropriateness of the percentage established in regulation. (Section 9315(c)), Public Law 99–509.	February 1, 1988.
Secretary of Health and Human Services shall conduct a study and report to Congress information on the frequency and distribution (by type of provider) of denials of bills for payment under title XVIII of the Social Security Act for extended care services, home health services, and hospice care. (Sec. 9305(g)(2), Public Law 99–509; H.R. 5300).	March 31, 1988.
Secretary of Health and Human Services shall study and report to Congress on (1) whether the separate schedules of cost limits currently applied to home health agencies located in urban and rural areas accurately reflect differences in the costs of urban and rural home health agencies; and (2) the appropriateness of modifying such limits to take into account the proportion of agency patients who are from urban and rural areas. (Public Law 100–203; H. R. 3545).	June 1, 1988.
General Accounting Office shall conduct a study and report to the Congress on (1) the appropriateness and impact on medicare beneficiaries of applying the per visit cost limits for home health services under sec. 1861(v)(1)(L) of the Social Security Act on a discipline-specific basis, rather than on an aggregate basis, for all home health services furnished by an agency, and (2) the appropriateness of the percentage limits established under such section. (Sec. 9315(c), Public Law 99–509; H.R. 5300.) (Jan. 20, 1988. Letter from Chairman to GAO granting extension of time to June 30, 1988).	June 30, 1988.

Topic	Due date
Secretary of HHS shall study and report to Congress on the adequacy of the standards used for hospitals, for purposes of meeting the conditions of participation, in assuring the quality of services furnished in hospitals. (Section 9305(d)), Public Law 509.	October 21, 1988.
Secretary of HHS shall report to Congress on a legislative proposal to improve the classification and payment system under section 1886(d) of the Social Security Act (and, as appropriate, the system for payment of outliers) in order to assure that the amount per discharge approximates the cost of medically necessary care provided in an efficient manner for individual patients or classes of patients with similar conditions. This proposal shall account for variations in severity of illness and cases complexity. (Section 9305(a)), Public Law 99-509.	October 21, 1988.
Secretary of HHS shall report to Congress its findings of a study to develop a strategy for quality review and assurance under the medicare program. (Section 9313(d)), Public Law 99-509.	October 21, 1988.
Secretary of Health and Human Services shall provide for a demonstration project to develop and test alternative methods of paying home health agencies on a prospective basis for services furnished under the Medicare and Medicaid programs, and submit an interim report to Congress. (Sec. 4027(c), 672 Public Law 100-203; H.R. 3545.).	December 22, 1988.
Secretary of Health and Human Services shall report to Congress on improvements in procedures for imposing sanctions against a practitioner or person established through agreement by the Health Care Financing Administration, the American Association of Retired Persons, the American Medical Association, and the Office of the Inspector General in the Department of Health and Human Services. (Sec. 4095(e), 683 Public Law 100-203; H.R. 3545.).	December 22, 1988.
United States Bipartisan Commission on Comprehensive Health Care shall study and report to Congress its findings and recommendations regarding comprehensive long-term care services for the elderly and disabled. (Sec. 406(a), Public Law 100-360; H.R. 2470.).	December 30, 1988.
Secretary of Health and Human Services shall report to the Congress on the development of a uniform needs assessment instrument. (Sec. 9305(h)(3). Public Law 99-509; H.R. 5300.).	January 1, 1989.
Secretary of Health and Human Services to conduct a study and report to Congress on prevailing charges for anesthesia services. (Sec. 4048(c), Public Law 100-203; H.R. 3545.).	January 1, 1989.
Secretary of HHS shall report to Congress on the development of a uniform needs assessment instrument(s) that evaluates the functional capacity of a beneficiary, and requirements to meet health care needs which can be used by discharge planner, health care providers and intermediaries in evaluating the beneficiary's need for post-hospital health care or services. (Section 9305(h)), Public Law 99-509.	January 1, 1989.
Secretary of HHS shall report to Congress on a study to determine whether a payment should be made (in a budget neutral fashion) to hospitals for administratively necessary days, separate from the per-discharge and outlier payments. (Section 9305(e)), Public Law 99-509.	January 1, 1989.
The General Accounting Office shall conduct a study and submit an interim report to the House Committees on Ways and Means, and Energy and Commerce, and the Senate Finance Committee on Medicare capitation. (Public Law 100-203; H.R. 3545).	January 1, 1989.
The General Accounting Office shall conduct a study and report to Congress on payment for physician anesthesia services. (Public Law 100-203; H.R. 3545).	January 1, 1989.
Secretary of Health and Human Services shall provide for a demonstration project to develop and test alternative methods of paying home health agencies on a prospective basis for services furnished under the Medicare and Medicaid programs, and submit an interim report to Congress. (Public Law 100-203; H.R. 3545).	January 5, 1989.
Secretary of Health and Human Services shall report to Congress on improvements in procedures for imposing sanctions against a practitioner or person established through agreement by the Health Care Financing Administration, the American Association of Retired Persons, the American Medical Association, and the Office of the Inspector General in the Department of Health and Human Services. (Public Law 100-203; H.R. 3545).	January 5, 1989.

Topic	Due date
Secretary of Health and Human Services shall report to Congress on alternative methods for reimbursement relative to adjustment of hospital wage indices for Fiscal Year 1989. (Sec. 8403(b), Public Law 100–647; H.R. 4333).	January 10, 1989.
Secretary of Health and Human Services shall report to Congress with respect to stabilization funds by eligible organizations under sec. 1876(g)(5)—health maintenance organizations—of the Social Security Act, assessing the need for such funds. (Sec. 2350(b)(4), Public Law 98–369; H.R. 4170).	January 18, 1989.
Secretary of HHS shall report to Congress of its findings from a demonstration project concerning prior and concurrent authorization for post-hospital extended care services and home health services furnished under Medicare part A and part B. (Section 9305(k)), Public Law 99–509.	February 1, 1989.
Secretary of Health and Human Services shall report to Congress concerning (1) the proportion of admissions to hospitals for extended care services which are denied or approved by a peer review organization; and (2) on recommendations for methods of encouraging hospitals that (a) have a low occupancy rate, (b) are eligible to enter (but have not entered) into an agreement, and (c) are located in areas with a need for additional providers of extended care services, to enter into such agreements. (Public Law 100–203; H.R. 3545).	February 1, 1989.
Secretary of Health and Human Services shall report to Congress on the criteria used for the classification of hospitals as rural referral centers. (Public Law 100–203; H.R. 3545).	March 1, 1989.
Secretary of Health and Human Services shall report to Congress on the adequacy of the amounts paid for rural health clinic services provided by independent rural health clinics. (Public Law 100–203; H.R. 3545).	March 1, 1989.
Secretary of Health and Human Services shall submit to the Congress a final report on the development of a fully prospective payment system for ambulatory surgical procedures performed on patients in hospitals on an outpatient basis. (Sec. 9343(f), Public Law 99–509; H.R. 5300).	April 1, 1989.
Secretary of Health and Human Services shall report to the House Committees on Ways and Means and Energy and Commerce, and the Senate Committee on Finance on the relative value scale, fee schedules, and the index developed under this section. (Public Law 100–203; H.R. 3545).	April 1, 1989.
Secretary of Health and Human Services to study and report to Congress on payment for chemotherapy in physicians' offices (Public Law 100–203; H.R. 3545).	April 1, 1989.
Secretary of HHS shall report to the Committee on Finance of the Senate and Committees on Ways and Means and Energy and Commerce of the House of Representatives on the progress made in the demonstration program, required by section 9314 of P.L. 99–272, including a description of the sites at which the program is being conducted and the preventive health services begin provided at the different sites. (Section 9314(e)(1)), Public Law 99–272.	April 7, 1989.
Secretary of HHS shall report to Congress on the results of the amendments made by section 1164 of the Act relating to 100 percent peer review of certain surgical procedures. (Section 9401(e)), Public Law 99–272.	April 7, 1989.
Secretary of Health and Human Services shall submit a final report to Congress of issues relating to the volume and intensity of physicians' services. (Public Law 100–203; H.R. 3545).	May 1, 1989.
Inspector General of the Department of HHS shall study and report to Congress on: (A) Physician ownership of, or compensation from, which the physician makes referrals and for which payment may be made under the Medicare program; (B) Range of such arrangements and the means by which they are marketed to physicians; and (C) Potential of such ownership or compensation to influence the decision of a physician regarding referrals and to lead to inappropriate utilization of such items and services; and (D) arrangements that violate current anti-kickback provisions. (Sec. (c)(2), Public Law 100–360; H.R. 2470).	May 1, 1989.
Secretary of Health and Human Services shall study and report to the Committees on Ways and Means and Energy and Commerce, and the Senate Committee on Finance on reimbursement for specimen collection and transportation and personnel costs related to trip fees for clinical laboratories. (Sec. 8421(c), Public Law 100–647; H.R. 4333).	May 1, 1989.

Topic	Due date
Secretary of Health and Human Services shall study and report to Congress on the information collected in the survey of current adult day care services. Based on such information the Secretary shall make recommendations concerning appropriate standards for coverage of adult day care services under Medicare, including defining chronically dependent individuals, defining services included in adult day care services, establishing qualifications of providers of adult care services, and establishing a reimbursement mechanism. (Sec. 208(c), Public Law 100–360; H.R. 2470).	June 30, 1989.
Advisory Committee on Medicare Home Health Claims shall study and report to the Committees on Ways and Means and Energy and Commerce, and the Committee on Finance of the Senate on its findings and recommendations for changes in the regulations under title XVIII of the Social Security Act as they relate to denial of claims for home health services. (Sec. 427(d), Public Law 100–360; H.R. 2470).	June 30, 1989.
Secretary of Health and Human Services shall study and submit an interim report to the Congress on the case management demonstration projects conducted under this section. Sec. 425(f)(2)(A), Public Law 100–360; H.R. 2470).	June 30, 1989.
The General Accounting Office shall conduct a study and report to Congress concerning the cost effectiveness of requiring hearings with a carrier before having a hearing before an administrative law judge. (Public Law 100–203; H.R. 3545).	June 30, 1989
Secretary of Health and Human Services shall report to the Congress on the development of a relative value scale for physicians' services. (Sec. 9305(b), Public Law 99–272; H.R. 3128).	July 1, 1989.
Secretary of Health and Human Services shall conduct a study and report to Congress of changes in the payment system for physicians' services that would be required for the implementation of a national fee schedule for such services furnished on or after Jan. 1, 1990. (Public Law 100–203; H.R. 3545).	July 1, 1989.
Physician Payment Review Commission shall study and report to the Committees on Ways and Means and Energy and Commerce of the House of Representatives and the Committee on Finance of the Senate concerning the quality of care of screening mammography in a variety of settings and at different volume levels. (Sec. 204(f)(1), Public Law 100–360; H.R. 2470).	July 1, 1989.
Comptroller General shall study and report to the Committee on Ways and Means and Energy and Commerce and the Committee on Finance of the Senate concerning the quality of care of screening mammography in a variety of settings. (Sec. 204(f)(2), Public Law 100–360; H.R. 2470).	July 1, 1989.
Prospective Payment Assessment Commission shall study and report to the Congress on the appropriate payment for hospitals and treatment of wage and wage-related costs of such hospitals in computing area wage indices. (Sec. 8403(c), Public Law 100–647; H.R. 4333).	August 10, 1989.
The Prospective Payment Assessment Commission shall perform an analysis and report to Congress on the feasibility and appropriateness of adjusting the non-wage-related portion of the adjusted average standardized amounts based on area differences in hospitals' costs (other than wage-related costs) and input prices. (Public Law 100–203; H.R. 3545).	October 1, 1989.
Secretary of HHS shall study and report to Congress on the advisability of providing, to chronically dependent individuals eligible for in-home care under the amendments made by this section, out-of-home services (such as adult day care services or nursing facility services) as alternative services to in-home care. (Sec. 205(g), Public Law 100–360; H.R. 2470).	December 30, 1989.
Secretary of Health and Human Services shall conduct a study and report to Congress on the possibility of including drugs which have not been approved under Sec. 505 or 507 of the Federal Food, Drug, and Cosmetic Act and biological products which have not been licensed under Sec. 351 of the Public Health Service Act but which are commonly used in the treatment of cancer or in immunosuppressive therapy covered outpatient drugs under the Medicare program. (Sec. 202(k)(1)(A), Public Law 100–360; H.R. 2470).	January 1, 1990.
Secretary of Health and Human Services shall conduct a study and report to Congress on evaluating the potential to use mail service pharmacies to reduce costs to the Medicare program and to Medicare beneficiaries. (Sec. 202(k)(1)(B), Public Law 100–360; H.R. 2470).	January 1, 1990.

Topic	Due date
The General Accounting Office shall conduct a study and submit an interim report to the House Committees on Ways and Means, and Energy and Commerce, and the Senate Committee on Finance on Medicare capitation. (Public Law 100–203; H.R. 3545).	January 1, 1990.
Secretary of Health and Human Services shall conduct a study and report to the Congress on incentive payments for physicians' services furnished in underserved areas (Public Law 100–203; H.R. 3545).	January 1, 1990.
The General Accounting Office shall conduct a study and report to Congress on the level of the fee schedules established for clinical diagnostic laboratory services to determine, based on the costs of, and revenues received for, such tests the appropriateness of such schedules. (Public Law 100–203; H.R. 3545).	January 1, 1990.
The Comptroller General shall study and report to Congress on the impact of the amendments made by section 9319 of P.L. 99–509 (relating to Medicare as secondary payor for disabled employees of certain large employers) on access of disabled individuals and members of their family to employment and health insurance. (Section 5000(e)), Public Law 99–509.	March 1, 1990.
The General Accounting Office shall conduct a study and report to Congress on payment for physician anesthesia services. (Public Law 100–203; H.R. 3545).	April 1, 1990.
Secretary of Health and Human Services shall study and submit a final report to the Congress on the case management demonstration projects conducted under this section. (Sec. 425(f)(2)(B), Public Law 100–360; H.R. 2470).	June 30, 1990.
Secretary of HHS shall conduct a study and report to the Committee on Finance of the Senate and the Committees on Ways and Means and the Energy and Commerce of House of Representatives with respect to the advisability of continuing or terminating the exception under section 1886(h)(5)(F)(ii) of the Act for geriatric residencies and fellowships, and of expanding such exception to cover other eductional activities. (Section 9202(c)(2)), Public Law 99–272.	July 1, 1990.
Secretary of Health and Human Services shall conduct a survey and report to Congress on out-of-pocket costs of Medicare beneficiaries for health care services. Public Law 10–203; H.R. 3545).	July 1, 1990.
Secretary of Health and Human Services shall conduct a demonstration project and report to Congress on payment for therapeutic shoes for individuals with severe diabetic foot disease. (Public Law 100–203; H.R. 3545).	October 1, 1990.
Secretary of Health and Human Services shall conduct a study and submit an interim report to Congress on the demonstration projects relating to research on long-term care services for Medicare beneficiaries. (Sec. 207(d), Public Law 100–360; H.R. 2470).	December 1, 1990.
Secretary of Health and Human Services to conduct a study and report to Congress on end-stage renal disease program. (Sec. 4036(d)(3), Public Law 100–203).	December 22, 1990.
General Accounting Office shall conduct a study and report to Congress on the appropriateness of the level of payments allowed for covered items under the Medicare program. (Sec. 4062(c)(5), Public Law 100–203; H.R. 3545).	January 1, 1991.
The General Accounting Office shall conduct a study and submit a final report to Congress on Medicare capitation. (Public Law 100–203; H.R. 3545).	January 1, 1991.
Secretary of Health and Human Services shall conduct a standard and extended survey on home health agencies and report to Congress on the results of such evaluation. (Public Law 100–203; H.R. 3545).	January 1, 1991.
Secretary of Health and Human Services shall conduct a study and evaluation and report to Congress on amendments made to this section on the availability of covered items and shall evaluate the appropriateness of the volume adjustment for oxygen and oxygen equipment. (Public Law 100–203; H.R. 3545).	January 1, 1991.
Secretary of Health and Human Services shall study and report to Congress on the End-State Renal Disease program. (Public Law 100–203; H.R. 3545).	January 5, 1991.
Prospective Payment Assessment Commission shall conduct a study and report to Congress and the Secretary of HHS concerning appropriate adjustment to the payment amounts provided under Sec. 1886(d) of the Social Security Act for inpatient hospital services to account for reduced costs to hospitals resulting from the amendments made by this section. (Sec. 203(c)(3), Public Law 100–360; H.R. 2470).	March 1, 1991.
Comptroller General shall conduct the following studies, and report to Congress on: (A) Comparing average wholesale prices with actual pharmacy acquisition costs by type of pharmacy; (B) Determining the overhead cost of retail pharmacies; and (C) Discounts given by pharmacies to other third-party insurers. (Sec. 202(k)(2), Public Law 100–360; H.R. 2470).	April 7, 1991.

Topic	Due date
Secretary of HHS shall submit to the same committees mentioned above a final report on the demonstration program required by section 9314 of P.L. 299–272. (Section 9314(e)(2)).	April 7, 1991.
Secretary of Health and Human Services to submit an interim report and conduct at least 5, but no more than 10, demonstration projects to determine the effectiveness, cost, and impact of providing comprehensive services to Medicare beneficiaries with Alzheimer's disease or related disorders. (Sec. 9342, Public Law 99–509; OBRA).	May 1, 1991.
Secretary of Health and Human Services shall conduct a study and submit a report to Congress on the progress of demonstrations of preventive health services under Medicare. (Sec. 9314, Public Law 99–272; COBRA).	September 30, 1991.
Secretary of Health and Human Services shall review and report to Congress on Fiscal Year 1991 payment for hospice care. (Sec. 1814(i)(C), Social Security Act, amended by Sec. 9123, Public Law 99–272; COBRA).	October 1, 1991.
Secretary of Health and Human Services shall submit reports on coverage of Catastrophic expenses for prescription drugs and insulin and on outlays and receipts. (Sec. 1834(c)(8)(C) amended by 202(b)(4), Public Law 100–360).	October 31, 1991.
Secretary of Health and Human Services to submit a final report to Congress on home health prospective payment demonstration project. (Sec. 4027(c), Public Law 100–203).	December 22, 1991.
Secretary of Health and Human Services shall conduct a demonstration project and report to Congress on providing payment on a prepaid, capitated basis for community nursing and ambulatory care furnished to medicare beneficiaries. (Public Law 100–203; H.R. 3545).	January 1, 1992.
Secretary of Health and Human Services shall conduct a study and report to Congress on the implementation of the resident assessment process for residents of skilled nursing facilities. (Public Law 100–203; H.R. 3545).	January 1, 1992.
Secretary of Health and Human Services shall conduct demonstration projects to provide payment on a prepaid, capitated basis for community nursing and ambulatory care furnished to any individual entitled to benefits under Medicare Part A and enrolled under Medicare Part B (other than an individual medically determined to have end-stage renal disease) who resides in the geographic area served by the organization and enrolls with such organization. (Sec. 4201(f)(7)(c), Public Law 100–203; OBRA).	January 1, 1992.
Secretary of Health and Human Services shall conduct a study and report to Congress on the use of outpatient prescription drugs by Medicare beneficiaries with respect to medical necessity, potential for adverse drug interactions, cost (including whether lower cost drugs could have been used), and patient stockpiling or wastage. (Sec. 202(k)(1)(D), Public Law 100–360; H.R. 2470).	January 1, 1992.
Secretary of Health and Human Services shall submit a final report on case management demonstration projects. (Sec. 425(f)(2)(B), Public Law 100–360).	July 1, 1992.
Secretary of Health and Human Services shall report to Congress on the distribution of outlays from the establishment of a catastrophic drug insurance trust fund. (Sec. 1841A(d)(2) amended by 212(a), Public Law 100–360).	December 1, 1992.
Secretary of Health and Human Services shall submit a final report to Congress on research delivery and financing of long-term care services for Medicare beneficiaries. (Sec. 207(a)(1), Public Law 100–360).	December 1, 1992.
Secretary of Health and Human Services shall conduct a study and submit an interim report to Congress on the demonstration projects relating to research on long-term care services for Medicare beneficiaries. (Sec. 207(d), Public Law 100–360; H.R. 2470).	December 1, 1992.
Secretary of Health and Human Services shall research and submit a final report on how finances affect utilization of institutional and noninstitutional long-term care services. (Sec. 207(a)(2), Public Law 100–360).	December 1, 1992.
Secretary of Health and Human Services shall research and submit a final report to Congress on the financial effects of long-term care on relatives. (Sec. 207(a)(3), Public Law 100–360).	December 1, 1992.
Secretary of Health and Human Services shall submit a final report to Congress on the quality of long-term care in a community-based and custodial setting. (Sec. 207(a)(4) Part 1, Public Law 100–360).	December 1, 1992.
Secretary of Health and Human Services shall submit a final report to Congress on how the provision of long-term care may reduce expenditures for acute health care services. (Sec. 207(a)(4) Part 2, Public Law 100–360).	December 1, 1992.

Topic	Due date
Secretary of Health and Human Services shall submit a final report to Congress on consumer protections for beneficiaries receiving long-term care service. (Sec. 207(a)(5) Public Law 100–360).	January 1, 1993.
Secretary of Health and Human Services shall report to Congress on coverage of catastrophic expenses for prescription drugs and insulin and on methods to improve utilization review of covered outpatient drugs. (Sec. 202(k)(1)(C), Public Law 100–360; H.R. 25470).	January 1, 1993.
Secretary of Health and Human Services shall report to Congress on the progress made in implementing the nursing facility staffing requirements including the number and types of waivers approved and the number of facilities which have received waivers. (Sec. 4211(b)(2)(C), Public Law 100–203; COBRA).	January 1, 1993.
Secretary of Health and Human Services shall report to Congress on the coverage of Catastrophic expenses for prescription drugs and insulin and use of outpatient drugs. (Sec. 202(k)(1)(D), Public Law 100–360).	January 1, 1993.
Secretary of Health and Human Services shall report to Congress on the chronically mentally ill demonstration. (Sec. 9412(a), Public Law 99–509; OBRA).	
Secretary of Health and Human Services shall report to Congress on the extension of waivers for social Health Maintenance Organization. (Sec. 4018(b), Public Law 100–203; OBRA).	March 31, 1993.
Secretary of Health and Human Services shall conduct a demonstration project and report to Congress on payment for therapeutic shoes for individuals with severe diabetic food disease. (Sec. Public Law 100–203; H.R. 3545).	April 1, 1993.
Secretary of Health and Human Services shall report to Congress on adjustments in Medicare Part B Premium. Sec. 1839(g)(7)(A)(ii) amended by 211(a), Public Law 100–360).	September 1, 1993.
Secretary of Health and Human Services shall report to Congress on the appropriateness of Medicare Part B premium increases in U.S. territories. (Sec. 1839(g)(7)(B)(iii) amended by 211(b), Public Law 100–360).	September 1, 1993.
Secretary of Health and Human Services shall study and make a final report to Congress concerning demonstration projects relating to research on long-term care services for Medicare beneficiaries. (Sec. 207(d), Public Law 100–360; H.R. 2470).	June 1, 1994.
Secretary of Health and Human Services shall make a final report to Congress concerning delivery and financing of long-term care services for Medicare beneficiaries. (Sec. 207(a)(1), Public Law 100–360).	June 1, 1994.
Secretary of Health and Human Services shall make a final report to Congress on how finances affect utilization of institutions and noninstitutional long-term care services. (Sec. 207(a)(2), Public Law 100–360).	June 1, 1994.
Secretary of Health and Human Services shall make a final report to Congress on the financial effects of long-term care services on relatives. (Sec. 207(a)(3), Public Law 100–360).	June 1, 1994.
Secretary of Health and Human Services shall submit a final report to Congress on how the provision of long-term care may reduce expenditures for acute health care services. (Sec. 209(a)(4), Public Law 100–360).	June 1, 1994.
Secretary of Health and Human Services shall make a final report to Congress on the quality of long-term care in a community-based and custodial setting. (Sec. 207(a)(4), Public Law 100–360).	June 1, 1994.
Secretary of Health and Human Services shall report to Congress on 5 demonstration programs on joint nursing graduate education and the characteristics of nurses trained under such programs. (Sec. 8411(a)(5), Public Law 100–647; H.R. 4333).	January 1, 1995.
Secretary of Health and Human Services shall report to the Congress on proposed criteria under which—in the case of a hospital that demonstrates to the Secretary in a current fiscal year that the adjustment being made under the prospective payment provisions of the Medicare program for that hospital's discharges in that fiscal year does not accurately reflect the wage levels in the labor market serving the hospital—the Secretary, to the extent he deems appropriate, would modify such adjustment for that hospital for discharges in the subsequent fiscal year to take into account a difference in payment amounts in that current fiscal year to the hospital that resulted from such inaccuracy. (Sec. 2316(c), Public Law 98–369; H.R. 4170).	No date certain.

Topic	Due date
Secretary of Health and Human Service shall conduct at least 5, but no more than 10, demonstration projects to determine the effectiveness, cost, and impact of providing comprehensive services to Medicare beneficiaries with Alzheimer's disease or related disorders. (Sec. 9342, Public Law 99-509; OBRA).	No date certain.
Secretary of Health and Human Services shall report to the Congress on possible methods of reimbursement under title XVIII of the Social Security Act which would not discourage the use of certified registered nurse anesthetists by hospitals. (Sec. 2312(d), Public Law 98-369; H.R. 4170).	No date certain.
Secretary of Health and Human Services shall submit an interim report to Congress on a study evaluating the extent of, and reasons for, the termination by Medicare beneficiaries of their memberships in organizations with contracts under Sec. 1876 of the Social Security Act, placing special emphasis on the quantity and quality of medical care provided in such organizations and the quality of such care when provided on a fee-for-services basis. (Sec. 114(e), Public Law 97-248; H.R. 4961.) (See Executive Communication 2041).	Within 2 years after implementation.
Secretary of HHS shall report to Congress on a rural secondary specialty demonstration project which is to determine the effect that a modified system of making payments under part A to such centers would have on total expenditures under such part and the access of medicare beneficiaries located in rural areas to quality health care. (Section 9302(d)(4)), Public Law 99-509.	No date certain.
Secretary of HHS shall study and report to Congress of the extent to which the medicare economic index (MEI) appropriately and equitably reflects the changes in the provision of the physicians' services to medicare beneficiaries (Section 9331(c)(4)), Public Law 99-509.	No date certain.
Secretary of HHS shall conduct a study and report to Congress on the advisability of redefining the localities designated by carriers for payment purposes. (Section 9331(e)(1)), Public Law 99-509.	No date certain.
Secretary shall provide for an evaluation of the demonstration projects and shall submit to the Committees on Energy and Commerce and Ways and Means of the U.S. House of Representatives and the Committee on Finance of the Senate a preliminary report during the third year of the Alzheimer's Disease Demonstration Projects, required under section 9342(a) of P.L. 99-509, and a final report upon completion of the projects, which shall include legislative recommendations. (Section 9342(d)), Public Law 99-509.	No date certain.
Secretary of HHS shall submit a final report to Congress on a study evaluating the extent of, and reasons for, the termination by medicare beneficiaries of their memberships in organizations with contracts under section 1876 of the Act placing special emphasis on the quantity and quality of such medical care provided in such organizations and the quality of such care when provided on a fee-for-service basis. (Section 114(e), Public Law 97-248).	Within 5 years after implementation.
Secretary of HHS shall report on adjustments that may be required in medicare prospective payment amounts for such cases which have an unusually short length of stay or which are significantly less costly than the DRG payment with recommendations on how to address this issue. (Public Law 98-21).	No date certain.
Secretary of HHS shall report on the advisability of continuing a fee schedule for hospital-based lab servicing hospital outpatients, and if advisable, the appropriate fee level. (H. Rpt. 98-861, p. 1305, Public Law 98-369).	No date certain.
Secretary of Health and Human Services shall review the report of the Director of the Office of Technology Assessment, due to be submitted to Congress by Dec. 31, 1985, on medicare part B payments to physicians. (Sec. 2309(c), Public Law 98-369; H.R. 4170).	No date certain.

APPENDIX B. HEALTH STATUS, INSURANCE, AND EXPENDITURES OF THE ELDERLY AND BACKGROUND DATA ON LONG-TERM CARE

Although the health status of the elderly appears to have been improving in recent decades, many of the elderly have conditions that require health care, sometimes in substantial amounts. Nearly all of the elderly have some insurance that protects them, at least partially, from the expenses arising from health care use. Many are well insured for their acute care needs—that is, for hospital and physician services. Others face greater risk of high out-of-pocket expenditures. This appendix reports on the health status, health insurance, and health care expenditures of the elderly.

HEALTH STATUS

By various measures, the health status of the elderly population has been improving over the years. For example, life expectancy at age 65 has increased from 13.9 years in 1950 to 16.8 years in 1984 (see table 1). The improvements in life expectancy—or, alternatively, the declines in mortality rates—have been greater for females than for males. Morbidity indicators—such as the incidence of high blood pressure—also improved among those aged 65 to 74 years between the early 1960's and the late 1970's (see table 2).

TABLE 1.—LIFE EXPECTANCY AT BIRTH AND AT 65 YEARS OF AGE, BY SEX, BY RACE, UNITED STATES, SELECTED YEARS 1900–86

Year	At birth			At 65 years			At birth	
	Both sexes	Male	Female	Both sexes	Male	Female	White	Black
	Remaining Life Expectancy in Years							
1900 [1] [2]	47.3	46.3	48.3	11.9	11.5	12.2	47.6	[4] 33.0
1950 [2]	68.2	65.6	71.1	13.9	12.8	15.0	69.1	60.7
1960 [2]	69.7	66.6	73.1	14.3	12.8	15.8	70.6	63.2
1970	70.9	67.1	74.8	15.2	13.1	17.0	71.7	64.1
1980	73.7	70.0	77.4	16.4	14.1	18.3	74.4	68.1
1984	74.7	71.2	78.2	16.8	14.6	18.6	75.3	69.7
1985	74.7	71.2	78.2	16.7	14.6	18.6	75.3	69.5
1986 [2] [3]	74.9	71.3	78.3	16.9	14.8	18.6	75.4	69.6

[1] Death registration area only; includes 10 States and the District of Columbia.

[2] Includes deaths of nonresidents of the United States.

[3] Provisional data.

[4] Figure is for the all other population.

Source: National Center for Health Statistics, Health, United States, 1987, DHHS Pub. No. (PHS) 88-1232, p. 44.

TABLE 2.—SELECTED HEALTH STATUS INDICATORS FOR PERSONS 65–74 YEARS OF AGE, BY SEX, 1960–62, 1971–74, AND 1976–80

Health status indicator	Both sexes			Male			Female		
	1960–62	1971–74	1976–80	1960–62	1971–74	1976–80	1960–62	1971–74	1976–80
	Percent of Population								
Borderline or definite elevated blood pressure [1]	73.8	70.3	63.1	65.9	65.4	62.0	80.3	74.1	63.9
Definite elevated blood pressure [2]	48.7	40.9	34.5	40.5	36.4	33.3	55.4	44.4	35.5
High-risk serum cholesterol levels [3]	37.3	31.3	27.2	20.8	19.9	18.1	50.8	40.0	34.3
Overweight [4]	34.6	31.5	32.7	23.8	23.0	25.2	43.3	38.0	38.5

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[1] Borderline or definite elevated blood pressure is defined as either systolic pressure of at least 140 mmHg or diastolic pressure of at least 90 mmHg or both based on a single measurement.

[2] Definite elevated blood pressure is defined as either systolic pressure of at least 160 mmHg or diastolic pressure of at least 95 mmHg or both based on a single measurement.

[3] High-risk serum cholesterol levels are defined by age-specific cut points of the cholesterol distribution. For 40 years of age and over, high risk is greater than 260 milligrams/deciliter. Risk levels defined by NIH Consensus Development conference statement on lowering blood cholesterol, December 10, 1984.

[4] Overweight is defined for men as body mass index greater than or equal to 27.8 kilograms/meter ^{2}, and for women as body mass index greater than or equal to 27.3 milograms/meter ^{2}. These cut points were used because they represent the sex-specific 85th percentiles for persons 20–29 years of age in the 1976–80 National Health and Nutrition Examination Survey.

Source: National Center for Health Statistics, Health, United States, 1985, DHHS Pub. No. (PHS) 86–1232, pp. 76–79. Data are based on physical examinations of a sample of the civilian, noninstitutionalized population.

Despite the trend toward generally improved health status of the elderly, their needs for health care remain substantial. First, greater life expectancy merely postpones the inevitable need for terminal illness care. (About two-thirds of the deaths in the United States are of the elderly. A recent study found that the 6 percent of Medicare beneficiaries who died in 1978 accounted for 28 percent of Medicare expenditures.[1]) Second, many of the elderly have one or more chronic conditions, many of which give rise to the need for continuing health care. Table 3 shows the incidence of several common chronic conditions among the elderly. Nearly half report having arthritis, about 40 percent report high blood pressure, and over one-fourth report heart disease. The incidence of many chronic conditions is directly related to age and inversely related to family income.

Another common measure of health status is self-assessment, on a scale ranging from "excellent" to "poor." Over one-third of the elderly report their health to be excellent or very good, but nearly another third report fair or poor health (see table 4). Lower-income elderly are more likely to report fair or poor health—over 40 percent of those with incomes under $10,000, compared to under 30 percent at incomes above this level.

TABLE 3.—NUMBER OF SELECTED CHRONIC CONDITIONS PER 1,000 ELDERLY PERSONS, BY AGE AND FAMILY INCOME, 1986

Type of chronic condition	All elderly	Age		Family income [1]		
		65–74	75 and over	Less than $10,000	$10,000 to $19,999	$20,000 to $34,999
Arthritis	480	443	540	568	459	355
Cataracts	141	84	233	192	157	93
Hearing impairment	296	244	378	337	308	293
Deformity or orthopedic impairment	173	158	196	215	174	122
Hernia of abdominal cavity	61	47	85	89	50	43
Diabetes	98	92	109	109	96	95
Heart disease	277	250	319	358	254	295
High blood pressure (hypertension)	394	385	409	477	396	366
Emphysema	40	45	33	45	36	52

[1] Too few elderly at incomes of $35,000 and above were surveyed to provide reliable estimates for most conditions.

Source: National Center for Health Statistics, Current Estimates from the National Health Interview Survey, United States, 1986, Vital and Health Statistics, Series 10, No. 164, pp. 85, 86, 91–94. Data are based on household interviews of the civilian, noninstitutionalized population.

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[1] J. Lubitz and R. Prihoda, "The Use and Costs of Medicare Services in the Last Two Years of Life," Health Care Financing Review, Volume 5, 1984, pp. 117–131.

TABLE 4.—NUMBER OF ELDERLY PERSONS AND PERCENT DISTRIBUTION BY RESPONDENT-ASSESSED HEALTH STATUS, BY SEX AND FAMILY INCOME, 1986

Characteristic	All persons [1] (in thousands)	Respondent-assessed health status [2]					
		All health status [3]	Excellent	Very good	Good	Fair	Poor
All elderly [4]	27,538	100.0	16.4	20.8	32.9	20.1	9.8
Sex:							
Male	11,357	100.0	17.0	21.4	32.4	19.5	9.7
Female	16,181	100.0	16.0	20.4	33.3	20.5	9.9
Family income:							
Under $10,000	7,154	100.0	11.2	16.7	30.4	27.0	14.6
$10,000 to $19,999	7,587	100.0	15.2	20.9	35.2	19.6	9.1
$20,000 to $34,999	5,027	100.0	23.2	24.5	32.1	14.9	5.2
$35,000 and over	2,642	100.0	25.6	23.8	33.0	11.7	5.9

[1] Includes unknown health status.

[2] The categories related to this concept result from asking the respondent, "Would you say—health is excellent, very good, good, fair, or poor?" As such, it is based on the respondent's opinion and not directly on any clinical evidence.

[3] Excludes unknown health status.

[4] Includes unknown family income.

Source: National Center for Health Statistics, Current Estimates from the National Health Interview Survey, United States, 1986, Vital and Health Statistics, Series 10, No. 164, pp. 115, 116. Data are based on household interviews of the civilian, noninstitutionalized population.

MEDICARE REIMBURSEMENT AND OUT-OF-POCKET LIABILITIES OF THE ELDERLY

Tables 5 through 7 illustrate for 4 selected years how Medicare reimbursement, acute health care costs, and out-of-pocket liabilities of Medicare enrollees have changed. The years chosen are 1975, 1980, 1985, and 1990 (projected values). The 1990 projections include only those aspects of the Medicare Catastrophic Coverage Act which are actually in effect in 1990. This is a different analysis than the one used in the next section. Constant 1990 dollar values were obtained using the implicit price deflator for GNP.

The fastest-growing component of Medicare reimbursement is for benefits under the Supplementary Medical Insurance (SMI) program. For SMI, reimbursements increase at an annual rate of 15.4 percent, while the growth in total costs (including enrollees' share of costs) is 13.9 percent (see table 5). As a result, the share of SMI costs reimbursed by Medicare increases significantly over the period—from about 64 percent in 1975 to nearly 78 percent by 1990. Through 1985, the growth in Medicare's share is due to the declining significance of the SMI deductible, so that more enrollees' costs were eligible for reimbursement. Between 1985 and 1990, there is the additional effect of the new cap on enrollees' SMI copayment costs mandated by the Medicare Catastrophic Coverage Act.

In the Hospital Insurance (HI) program, by contrast, the rate of growth in reimbursement and in enrollees' copayment costs has been similar—about 10 percent a year—so that the share of HI costs reimbursed by Medicare has remained nearly constant at 93 to 94 percent.

Overall, the share of costs reimbursed by Medicare increases steadily over the period, from 75.5 percent in 1975 to 80.6 percent by 1990 (see table 5). The other side of this—the share of costs paid directly by enrollees—is shown in the third panel of table 6. For 1990, these premium amounts include projected supplemental premium liability. In 1975, enrollees paid 24.5 percent of their acute health care costs directly—through copayments or balance-billing. By 1990, this share will fall to 19.4 percent. (See table 7 for deductible amounts and monthly premium amounts under Medicare.)

The Medicare Catastrophic Coverage Act will effect a significant shift in the way enrollees share the costs of their health care—away from copayments and into premiums. Although the share of acute health care costs paid by enrollees is approximately the same—at about 33 percent—for 1975 and 1990, the mix between direct payments and premiums changes substantially (see table 6). In 1975, about 27 percent of enrollees' payments were through premiums, with the remaining 73 percent paid directly through copayments or balance-billing. By 1990, premiums will comprise about 40 percent of enrollees' payments, while enrollees will pay about 60 percent of their share of costs directly.

The act will eliminate copayment requirements for hospital inpatient stays, except for a single first-day deductible amount. Further, it will reduce coinsurance payments for stays in skilled nursing facilities. As a result, the share of costs paid by enrollees through HI copayments will fall from 4 percent in 1985 to 2.9 percent in 1990. The act will also cap each enrollee's liability for SMI copayments (at $1,370 in 1990), with the result that the share of costs paid by enrollees through SMI copayments will fall from 7.9 percent in 1985 to 7 percent in 1990.

Enrollees are paying a growing share of their income for health care, however. In 1975, about 5.4 percent of enrollees' per capita income went to cover their share of acute health care costs. By 1990, enrollees will have to pay an estimated 8.6 percent of their per capita income to cover their share of costs. This is a phenomenon that is economy-wide, affecting all population groups. In 1975, about 8.6 percent of gross national product was spent on health; by 1990, it is projected that this share will increase to 12 percent.

TABLE 5.—ACUTE HEALTH CARE COSTS FOR MEDICARE ENROLLEES, SELECTED YEARS

[Incurred costs per part A and/or part B enrollee]

	Calendar years				Average annual growth rate, 1975–90 (in percent)
	1975	1980	1985	1990	
	In current dollars				
Hospital insurance:					
Reimbursement [1]	$453	$880	$1,531	$2,005	10.4
Copayments	30	70	114	127	10.0
Total	484	950	1,645	2,132	10.4
Supplementary medical insurance:					
Reimbursement	175	386	741	1,498	15.4
Copayments	79	133	227	303	9.4
Balance-billing	21	54	84	132	13.0
Total	275	573	1,053	1,933	13.9
Prescription drug costs:					
Reimbursement	0	0	0	3	....
Copayments/uninsured	74	115	180	281	9.3
Total	74	115	180	284	9.4
Total Medicare reimbursement	629	1,266	2,272	3,507	12.1
Total acute health costs	833	1,638	2,878	4,349	11.7
	In constant 1990 dollars				
Hospital insurance:					
Reimbursement [1]	1,009	1,356	1,817	2,005	4.7
Copayments	67	108	135	127	4.3
Total	1,076	1,463	1,952	2,132	4.7
Supplementary medical insurance:					
Reimbursement	390	594	880	1,498	9.4
Copayments	176	204	270	303	3.7
Balance-billing	47	83	99	132	7.1
Total	613	882	1,250	1,933	8.0
Prescription drug costs:					
Reimbursement	0	0	0	3	....
Copayments/uninsured	164	178	214	281	3.6
Total	164	178	214	284	3.7
Total Medicare reimbursement	1,399	1,950	2,697	3,507	6.3
Total acute health costs	1,853	2,523	3,416	4,349	5.9
Percent of costs paid by Medicare	75.5	77.3	79.0	80.6	.4

[1] Disbursements (benefits paid). Incurred costs (liability for all services provided during the year) were not available.

Note: 1990 values are projected. The implicit price deflator for gross national product was used to obtain constant dollars.

Source: Congressional Budget Office.

TABLE 6.—ENROLLEE COSTS UNDER MEDICARE, SELECTED CALENDAR YEARS

[Incurred costs per part A and/or part B enrollee]

	Calendar years				Average annual growth rate, 1975–90 (in percent)
	1975	1980	1985	1990	
	In current dollars				
HI copayments	$30	$70	$114	$127	10.0
SMI copayments	79	133	227	303	9.4
Balance-billing	21	54	84	132	13.0
Drug copayments/uninsured	74	115	180	281	9.3
Total direct costs	204	372	606	843	9.9
Premium costs [1]	77	106	179	569	14.3
Total enrollee costs	281	478	785	1,412	11.4
Enrollee per capita income [2]	5,158	8,357	12,485	16,417	8.0
	In constant 1990 dollars				
HI copayments	67	108	135	127	4.3
SMI copayments	176	204	270	303	3.7
Balance-billing	47	83	99	132	7.1
Drug copayments/uninsured	164	178	214	281	3.6
Total direct costs	454	573	719	843	4.2
Premium costs [1]	171	163	213	569	8.3
Total enrollee costs	626	736	932	1,412	5.6
Enrollee per capita income [2]	11,482	12,872	14,820	16,417	2.4
	In percent				
Enrollee acute health care costs as a percent of total acute health care costs, by source of payment:					
HI copayments	3.6	4.3	4.0	2.9	
SMI copayments	9.5	8.1	7.9	7.0	
Balance-billing	2.5	3.3	2.9	3.0	
Drug copayments/uninsured	8.9	7.0	6.3	6.5	
Total direct costs	24.5	22.7	21.0	19.4	
Premium costs [1]	9.2	6.4	6.2	13.1	
Total	33.8	29.2	27.3	32.5	
Enrollee-paid costs as a percent of enrollee per capita income [2]	5.4	5.7	6.3	8.6	

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[1] For 1990, includes projected supplemental premium liability.

[2] From Current Population Survey, adjusted for under-reporting.

Note: 1990 values are projected. The implicit price deflator for gross national product was used to obtain constant dollars.

Source: Congressional Budget Office.

TABLE 7.—COPAYMENT AND PREMIUM VALUES UNDER MEDICARE, SELECTED CALENDAR YEARS

	1975	1980	1985	1990	Average annual growth rate, 1975–90 (in percent)
	In current dollars				
Hospital insurance:					
Hospital deductible	$92	$180	$400	$592	13.2
Supplementary medical insurance:					
Annual deductible	60	60	75	75	1.5
Monthly premium [1] (annualized)	80	110	186	407	11.4
Total	232	124	661	1,074	10.7
	In constant 1990 dollars				
Hospital insurance:					
Hospital deductible	205	277	475	592	7.3
Supplementary medical insurance:					
Annual deductible	134	92	89	75	−3.8
Monthly premium (annualized)	179	170	221	407	5.6
Total	518	539	785	1,074	5.0

[1] The 1980 SMI monthly premium amount is the average of values for the first and second halves of the year.

Note: 1990 values are projected. The implicit price deflator for gross national product was used to obtain constant dollars.

Source: Congressional Budget Office.

IMPACT OF MEDICARE CATASTROPHIC COVERAGE UPON ENROLLEES [2]

To assess the impact of the Medicare Catastrophic Coverage Act of 1988 on enrollees, this section simulates its provisions as though they were fully effective during calendar year 1988.

For this 1988 simulation, the SMI copayment cap was set to affect 7 percent of enrollees (an SMI cap of $1,115), and the drug deductible was set to affect 16.8 percent of enrollees (a deductible of $465). The monthly premium rate was set to cover 37 percent of new benefit and administrative costs under the act—which would be an estimated $6.7 billion for a fully implemented benefit package in 1988. The supplemental premium rate was set to cover the remaining 63 percent of costs. The ceiling on supplemental liability was set at 60 percent of the part B "subsidy value," which is the per-enrollee value of part B benefits less monthly premiums payable.

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[2] This section is based upon a CBO staff working paper entitled "The Medicare Catastrophic Coverage Act of 1988."

Once the act is fully effective, about 22 percent of enrollees will be entitled to higher Medicare benefit payments because of either the HI provisions, the SMI copayment cap, or the new drug coverage. Medicare payments per enrollee would be higher by $194 (6.9 percent) if the act were fully implemented for 1988, for a total benefit payment of $2,995 (see table 8). HI payments would account for 28 percent of this increase, SMI payments for 43 percent, and drug payments for 29 percent. Most of the increase in benefits payments represents the assumption by Medicare of some portion of the enrollees' current copayment liabilities. Under the act, enrollees' copayment liabilities would fall by $172, on average. Medicare premiums payable would be higher by $207, on average, exceeding the increase in benefit payments by enough to cover the costs of administration and a contingency margin.

TABLE 8.—MEDICARE BENEFIT PAYMENTS, COPAYMENT LIABILITIES, AND PREMIUMS PAYABLE PER ENROLLEE BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100-360, SIMULATED FOR CALENDAR YEAR 1988

	Before	Change	After
Medicare benefit payments per enrollee:[1]			
Hospital insurance	$1,693	$54	$1,747
Supplementary Medical Insurance	1,108	83	1,191
Catastrophic drug insurance	0	57	57
Total	2,801	194	2,995
Medicare copayment liabilities per enrollee:			
Hospital insurance	162	−44	118
Supplementary medical insurance	325	−63	262
Catastrophic drug insurance	244	−65	179
Total	731	−172	559
Medicare premiums payable per enrollee:			
Monthly premiums	290	78	368
Supplemental premiums	0	129	129
Total	290	207	497

[1] About 22 percent of enrollees would be entitled to higher Medicare benefit payments under the act. This reflects an unduplicated count of those affected by the HI provisions (4 percent), the SMI copayment cap (7 percent), and the drug provisions (16.8 percent).

Note: Table shows effects of Medicare only.

Source: Congressional Budget Office simulation.

About 72 percent of Medicare enrollees currently have health benefits supplementary to Medicare, however, and the impact of the act on enrollees is affected by this supplementary coverage. The estimates shown in Tables 9-13 incorporate not only the effects of Medicare, but also of private medigap insurance and of Medicaid. The adjustments made for enrollees' supplementary coverage are summarized below.

Medigap insurance

About 62 percent of Medicare enrollees currently have medigap insurance designed to pick up most of their current Medicare copayment costs. For these enrollees, Medicare copayment costs are reduced, and premium costs (if paid directly by enrollees) are higher, compared to enrollees who do not have medigap insurance. While a variety of medigap policies exist, this analysis simulates a prototype that would cover all HI copayment costs and all SMI copayment costs above the $75 deductible. Balance-billing and drug costs would not be covered. For simulation, the medigap premium was set to achieve a "loss ratio" of 75 percent, which is within the range that is typical for medigap insurers. That is, 75 percent of receipts would be paid out in benefits, while the remainder would go for administrative costs and profit. It was assumed that medigap premiums would be paid directly by enrollees, not by current or former employers. The act would have no effect on HI and SMI copayment costs for enrollees with this medigap coverage, but it would reduce their drug and medigap premium costs.

Current Medicaid coverage

About 10 percent of Medicare enrollees currently receive Medicaid benefits as well. For this group of dually eligible enrollees, there are typically no Medicare premium or copayment costs because these costs are paid by Medicaid. Further, this group would receive no new Medicare benefits under the act because the new benefits would accrue to Medicaid—reducing Medicaid costs—rather than to enrollees.

New Medicaid buy-in coverage

Another 8 percent of Medicare enrollees—those who are poor but are not now receiving Medicaid benefits—could potentially benefit from the new Medicaid buy-in requirement, under which Medicare premium and copayment costs would be picked up by Medicaid. About 65 percent of those who would qualify for this new Medicaid benefit—or about 5 percent of Medicare enrollees—are expected to apply for it.

TABLE 9.—PERCENT DISTRIBUTION OF ENROLLEES BY INSURANCE COVERAGE AND ADJUSTED COPAYMENT CATEGORY BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100–360, SIMULATED FOR CALENDAR YEAR 1988

Copayment category	Percent of enrollees in group	Percent distribution		Average copayment	
		Before	After	Before	After
All Medicare enrollees	100.0	100.0	100.0	$380	$270
$0		12.7	17.9	0	0
$1 to $500		65.5	62.0	155	157
$501 to $1,500		16.8	17.7	843	721
$1,501 to $2,500		3.2	2.4	1,918	1,865
$2,501 or more		1.7	0	4,324	....
Enrollees with Medicare and Medicaid	10.5	100.0	100.0	0	0
$0		100.0	100.0	0	0
$1 to $500		0	0	0	0
$501 to $1,500		0	0	0	0
$1,501 to $2,500		0	0	0	0
$2,501 or more		0	0	0	0
Enrollees with Medicare and Medigap	61.9	100.0	100.0	312	238
$0		0	3.3	0	0
$1 to $500		81.0	78.6	159	160
$501 to $1,500		17.0	18.2	796	615
$1,501 to $2,500		1.5	0	1,893	0
$2,501 or more		.5	0	4,083	0
Enrollees with only Medicare	27.5	100.0	100.0	680	447
$0		7.9	19.2	0	0
$1 to $500		55.7	48.6	144	146
$501 to $1,500		22.8	23.4	922	905
$1,501 to $2,500		8.4	8.8	1,927	1,866
$2,501 or more		5.2	0	4,378	0

Note: Table shows combined effects of Medicare, Medicaid, and medigap insurance for services covered by Medicare. Enrollee groups defined by insurance coverage before Public Law 100–360.

Source: Congressional Budget Office simulation.

No enrollee would have been liable for copayments in excess of $2,500 had all the provisions of the act been in place in 1988, while currently nearly 2 percent of enrollees face such high copayment costs (see table 9). Elimination of the risk of very high copayment costs is an effect that is largely focused on Medicare enrollees who lack supplementary coverage, a group that tends to be poorer, older, and in poorer health than enrollees who have medigap insurance. The 10 percent of enrollees who are dually eligible for Medicaid now generally have no copayment costs. Enrollees who have medigap insurance have negligible copayment costs for HI and SMI benefits, although they may face significant costs for prescription drugs. Of the 62 percent of enrollees with medigap coverage, only 0.5 percent currently have copayment costs in excess of $2,500. By contrast, of the 28 percent of enrollees with only Medicare coverage, more than 5 percent incur copayment costs in excess of $2,500.

Premium costs, too, will fall for poor enrollees under the act. In part, this is because Medicaid will not only pick up new Medicare premiums, but will also pay existing part B premium costs for the poor. In addition, the simulation assumes that beneficiaries of the new Medicaid buy-in will drop any medigap insurance they have (because they would have no Medicare copayment costs for medigap to pick up), thereby eliminating those premium costs. Had the provisions of the act been fully implemented in 1988, premium costs for poor enrollees would have been lower by an estimated $194 (see table 10). If the simulation had assumed that all enrollees eligible for the new Medicaid buy-in would apply for it—and simultaneously would drop their medigap coverage—premium costs would have been eliminated for all poor enrollees.

TABLE 10.—NET CHANGE IN ENROLLEES' ADJUSTED OUT-OF-POCKET COSTS BY INCOME AND POVERTY STATUS BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100–360, SIMULATED FOR CALENDAR YEAR 1988

	Percent of enrollees in group	Net change in: [1]		
		Direct costs	Premium costs	Total costs
By per capita income percentiles (average per capita income):				
0 to 10 ($2,881)	10.0	−$243	−$139	−$382
11 to 30 ($5,623)	20.0	−160	−34	−194
31 to 50 ($8,575)	20.0	−113	23	−90
51 to 70 ($12,604)	20.0	−112	89	−22
71 to 90 ($19,579)	20.0	−101	302	202
91 to 100 ($52,291)	10.0	−91	522	431
By poverty status:				
Poor	12.8	−275	−194	−469
Near poor [2]	19.4	−124	19	−105
Other	67.8	−105	199	94
All enrollees	100.0	−130	114	−16

[1] Direct costs are adjusted benefits under the act.

[2] Includes those with incomes above the poverty line but below 1.5 times the line.

Note: Table shows combined effects of Medicare, Medicaid, and medigap insurance for services covered by Medicare.

Source: Congressional Budget Office simulation.

The net result of the act if it were fully effective in 1988 would be to reduce out-of-pocket costs (direct costs plus premiums) for poor and near-poor enrollees, while increasing costs for other groups (see table 10). Out-of-pocket costs for poor enrollees would fall by $469, on average, because of reductions in both direct costs and premiums. For near-poor enrollees, out-of-pocket costs would fall by $105, on average, as the result of lower direct costs partially offset by higher premium costs. (For near-poor enrollees not eligible for Medicaid, medigap premiums would fall, while Medicare premium costs would increase by the amount of the new fixed premiums. For those who now receive Medicaid benefits, premiums would be unchanged.) By contrast, more than half of enrollees with incomes more than 1.5 times the poverty line would be liable for the supplemental premium as well as the new monthly premiums, so that their total premium costs would increase by $199 for 1988, on average. This is larger than the expected decline in direct costs for this group, so that averge out-of-pocket costs would increase by $94.

Percent of enrollees affected by new benefits

About 6.8 percent of enrollees would see their copayment costs reduced because of the copayment cap (see table 11). This incidence varies greatly, however, among different groups of enrollees. Nearly 70 percent of nonaged enrollees with renal disease will exceed the copayment cap, as will more than 80 percent of aged enrollees with renal disease.

Enrollees with one hospital stay during the year are twice as likely than average to exceed the cap, while those with multiple or long hospital stays are 6 to 10 times more likely to exceed the cap than average. Enrollees near death are 3 times more likely to exceed the cap than average.

About 22 percent of part A and/or part B enrollees will benefit in any given year from at least one of the new Medicare provisions—the SMI copayment cap (which benefits 7 percent of part B enrollees), the drug benefit (which affects 16.8 percent of part B enrollees), or the new HI copayment provisions (which benefit about 4 percent of part A enrollees). With the SMI copayment cap set to affect 7 percent of enrollees each year, the cumulative share of enrollees affected over a 6-year period is estimated to be around 27 percent, nearly four times the share affected in any one year. Only 0.2 percent of Medicare enrollees would be affected in every year during a 6-year period.

TABLE 11.—PERCENT OF ENROLLEES AFFECTED BY NEW MEDICARE PROVISIONS BY DEMOGRAPHIC CHARACTERISTIC BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100–360, SIMULATED FOR CALENDAR YEAR 1988

Enrollees affected	New SMI copayment ceiling	Any new Medicare provisions
Age:		
Under 65	7.6	21.4
65 to 69	5.0	18.5
70 to 74	6.8	21.8
75 to 79	8.0	24.6
80 to 84	8.6	26.2
85 or more	7.4	25.7
Reason for entitlement:		
Age—		
Without renal disease	6.6	22.1
Without renal disease	81.4	84.7
Disability—		
Without renal disease	6.2	20.4
With renal disease	69.9	75.3
Use of services:		
No reimbursable services	0	5.0
No stays, other services	3.7	19.3
One stay, no coinsurance days	13.7	37.2
Two+ stays, no coinsurance days	39.3	77.3
One+ stays, coinsurance days	65.7	99.7
Year of death:		
During benefit year	18.6	40.4
One year subsequent to benefit year	21.1	41.5
Two+ years subsequent to benefit year	5.8	20.6
All enrollees [1]	6.8	22.2

[1] Each year, 7 percent of SMI enrollees will benefit from the copayment ceiling. This is only 6.8 percent of the HI and/or SMI enrollment counts used here, however.

Source: Congressional Budget Office simulation.

Percent distribution of enrollees by copayment liabilities

Under current law in 1988, 5.5 percent of enrollees will incur Medicare copayment costs or drug costs in excess of $2,500 (see table 12). If the act been fully effective for 1988, virtually no enrollees would have incurred such high copayment costs. This is so even though drug copayment costs—which do not count toward the SMI copayment cap—are potentially unlimited under the act.

On average, copayment liabilities would be reduced by $172 under the act, from $731 to $559. Benefits (Medicare reimbursement costs) would increase by $194, on average, from $2,801 to $2,995. While most of the new benefits under the act represent a transfer of copayment costs (defined to include drug costs prior to coverage by Medicare) from enrollees to Medicare, about 11 percent of new benefit costs is due to increased use of services by enrollees, the result of reduced cost-sharing and the elimination of certain limits on coverage.

Hospitalization, too, is an important determinant of high benefit costs under Medicare, especially for enrollees with more than one stay or with a very long stay (one that would involve coinsurance days under current law for 1988). For enrollees with a long hospital stay during the year, new benefit costs under the act would average $6,467, largely the result of a reduction in copayment liabilities by $6,103 (table 13). While enrollees with long hospital stays comprise only 0.5 percent of the Medicare population, this group would receive more than 17 percent of new benefits under the act—more than 30 times the average new benefit.

TABLE 12.—PERCENT DISTRIBUTION OF ENROLLEES BY COPAYMENT CATEGORY BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100-360, SIMULATED FOR CALENDAR YEAR 1988

Copayment category [1]	Percent distribution		Average copayment	
	Before	After	Before	After
All Medicare enrollees	100.0	100.0	$731	$559
$0	2.2	2.2	0	0
$1 to $500	57.8	57.8	159	160
$501 to $1,500	25.1	29.3	926	909
$1,501 to $2,500	9.3	10.7	1,921	1,861
$2,501 or more	5.5	0	4,104	0

[1] Enrollees' drug costs are counted as copayments, both before and after act.

Source: Congressional Budget Office simulation.

TABLE 13.—NET CHANGE IN ENROLLEES' BENEFITS BY USE OF SERVICES BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100-360, SIMULATED FOR CALENDAR YEAR 1988

	Percent of enrollees in group	Before	Change	After	Percent of new benefits received
		Medicare benefits			
Use of services:					
No reimbursable services	28.3	0	$36	$36	5.3
No stays, other services	50.2	$869	98	967	25.4
One stay, no coinsurance days	14.1	7,076	248	7,324	18.0
Two+ stays, no coinsurance days	6.9	17,430	972	18,402	34.3
One+ stays, coinsurance days	.5	33,129	6,467	39,596	17.3
Total	100.0	2,801	194	2,995	100.0

TABLE 13.—NET CHANGE IN ENROLLEES' BENEFITS BY USE OF SERVICES BEFORE AND AFTER IMPLEMENTATION OF PUBLIC LAW 100-360, SIMULATED FOR CALENDAR YEAR 1988—Continued

	Percent of enrollees in group	Before	Change	After	Percent of new benefits received
	Medicare copayments [1]				
Use of services:					
No reimbursable services	28.3	125	−36	89	....
No stays, other services	50.2	532	−93	439	....
One say, no coinsurance days	14.1	1,540	−195	1,345	....
Two+ stays, no coinsurance days	6.9	2,486	−817	1,669	....
One+ stays, coinsurance days	.5	7,923	−6,103	1,820	....
Total	100.0	731	−172	559	....

[1] Enrollees' drug costs are counted as copayments, both before and after act.

Note: Use groups defined by use before Public Law 100-360.

Source: Congressional Budget Office simulation.

ANALYZING TRENDS IN MEDICARE SPENDING, 1970-1989

This subsection analyzes Medicare spending over the past 20 years and is based upon numbers provided by the Congressional Budget Office and an article in Health Affairs, Fall 1988, entitled, "Are We Containing Costs or Pushing on a Balloon?"

Table 14 illustrates trends in Medicare spending from 1970-1987. This table shows that the average annual growth rate in age-adjusted real spending per enrollee was 5.0 percent from 1970 to 1980, and increased to 5.6 percent between 1980 and 1987, despite the impression that Medicare has undergone huge budgetary reductions.

For the entire population, health spending in real age-adjusted per capita terms grew by 3.6 percent per year from 1970 to 1980. During the period from 1980 to 1986 it grew at a 4.3 percent, annual rate. Thus, for each time period, Medicare per capita real spending grew at an annual rate about 1.4 percent higher than that of the entire population. Again, this provides some evidence which suggests that real Medicare spending from 1980 to 1987 has not slowed as a result of recent legislative initiatives.

Table 15 provides a more detailed look at Medicare spending per enrollee. On a per enrollee basis, annual growth in real cost from 1985 to 1989 will be an estimated 3.0 percent, compared to an annual growth rate of 7.2 percent from 1980 to 1985. The reason for the decline in spending per enrollee is due to the significant drop in inpatient hospital spending. From 1980 to 1985, per-enrollee inpatient hospital benefits grew at an annual rate of 6.5 percent while showing negative growth of −0.6 percent from 1985 to 1989.

The reverse was true for physician spending which increased slightly during the last half of the 1980s and outpatient hospital spending which grew significantly from 1985 to 1989. However, the cost experience of the last 4 years (1985–1989) provides some basis for suggesting that Medicare cost increases have slowed.

TABLE 14.—MEDICARE SPENDING, 1970–1987

Fiscal year [1]	Total spending (in billions)	Per enrollee	Real spending per enrollee (1987 dollars) [2]	Age-adjusted real spending per enrollee (1987 dollars) [2] [3]
1970	7.3	360	1,012	1,012
1971	8.1	391	1,042	1,040
1972	9.0	425	1,079	1,074
1973	9.9	427	1,025	1,012
1974	12.2	510	1,128	1,111
1975	15.5	630	1,264	1,231
1976	18.1	716	1,344	1,301
1977	21.5	825	1,455	1,402
1978	25.2	941	1,550	1,493
1979	29.1	1,060	1,606	1,530
1980	35.0	1,248	1,739	1,653
1981	42.5	1,485	1,883	1,800
1982	50.4	1,734	2,047	1,937
1983	56.8	1,920	2,176	2,067
1984	62.4	2,082	2,269	2,155
1985	71.3	2,332	2,462	2,336
1986	75.9	2,430	2,499	2,370
1987	81.6	2,562	2,562	2,428
	Average annual growth rates			
1970–80	17.0	13.2	5.6	5.0
1980–85	15.3	13.3	7.2	7.2
1985–87	7.0	4.8	2.0	2.0
1980–87	12.9	10.8	5.7	5.6

[1] For 1976 and earlier, July to June, fiscal year figures have been adjusted to conform to the subsequent October to September fiscal year.

[2] Adjusted by GNP deflator.

[3] Adjusted by index that accounts for the proportions and relative cost both of nonelderly Medicare enrollees and of five-year age groups of elderly Medicare enrollees.

Source: Health Affairs, Fall 1988, "Are we containing costs or pushing on a balloon?"

TABLE 15.—REAL MEDICARE DISBURSEMENTS PER ENROLLEE, FISCAL YEARS 1980–1989

[In 1988 dollars][1]

	Total Medicare	HI benefits	SMI benefits	Inpatient hospital	Home health [2]	Physician [3]	Outpatient hospital	Other [4]
1980	1,807	1,219	532	1,171	39	420	95	26
1981	1,958	1,322	578	1,269	43	457	103	27
1982	2,127	1,439	635	1,371	49	502	125	27
1983	2,264	1,505	706	1,424	60	562	135	29
1984	2,356	1,554	745	1,465	70	598	135	30
1985	2,557	1,703	792	1,607	76	630	142	40
1986	2,597	1,666	872	1,572	76	676	171	43
1987	2,693	1,643	993	1,547	78	775	197	40
1988 [5]	2,787	1,653	1,075	1,552	79	831	221	45
1989	2,877	1,672	1,148	1,568	82	881	243	46
	Average annual growth rates							
1980–85	7.2	6.9	8.3	6.5	14.4	8.4	8.4	9.2
1985–89	3.0	−0.5	9.7	−0.6	1.8	8.8	14.3	3.4
1980–89	5.3	3.6	8.9	3.3	8.7	8.6	11.0	6.6

[1] The GNP deflator is used to obtain constant dollars. This table is based on March 1988 analysis.

[2] Includes both HI and SMI benefits.

[3] Includes group practice plans.

[4] Includes SNF, hospice and independent lab benefits.

[5] Excludes new benefits under the Medicare Catastrophic Coverage Act.

Source: Congressional Budget Office using Health Care Financing Administration data.

TOTAL HEALTH CARE EXPENDITURES FOR THE ELDERLY

Expenditures for personal health care services for the elderly nearly tripled between 1977 and 1984, rising from $43 billion to an estimated $120 billion (see table 16).

Government programs (Federal and State) account for two-thirds ($2,823 per capita) of estimated 1984 spending for the aged (see table 16). The most significant of these programs is Medicare which pays for nearly half ($2,051 per capita) of the aged's health bill. Medicaid funds about 13 percent ($536 per capita) of the expenditures. Other Government health programs are the source of roughly 6 percent ($236 per capita) of personal health care expenditures for people 65 years of age and over.

TABLE 16.—PERSONAL AND PER CAPITA HEALTH CARE EXPENDITURES FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE, 1977 AND 1984

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing home	Other care
1977	(in millions of dollars)				
Total	43,425	18,906	7,782	10,696	6,041
Private	15,669	2,319	3,323	5,424	4,603
Consumer	15,499	2,263	3,320	5,352	4,564
Out-of-pocket	12,706	927	2,147	5,264	4,368
Insurance	2,793	1,336	1,173	88	195
Other private	170	56	3	72	39
Government	27,756	16,587	4,458	5,272	1,438
Medicare	19,171	14,087	4,158	348	578
Medicaid	6,049	733	232	4,453	631
Other government	2,536	1,767	68	470	230
Population (in millions)	24.3				
1984	(in millions of dollars)				
Total	119,872	54,200	24,770	25,105	15,798
Private	39,341	6,160	9,827	13,038	10,316
Consumer	38,875	5,964	9,818	12,856	10,237
Out-of-pocket	30,198	1,694	6,468	12,569	9,467
Insurance	8,677	4,270	3,350	287	770
Other private	466	196	9	182	79
Government	80,531	48,040	14,943	12,067	5,482
Medicare	58,519	40,524	14,314	539	3,142
Medicaid	15,288	2,595	467	10,418	1,808
Other government	6,724	4,920	162	1,110	532
Population (in millions)	28.5				
1984 Per capita (in dollars)					
Total	4,202	1,900	868	880	554
Private	1,379	216	344	457	362
Consumer	1,363	209	344	451	359
Out-of-pocket	1,059	59	227	441	332
Insurance	304	150	117	10	27
Other private	16	7	(1)	6	3
Government	2,823	1,684	524	423	192
Medicare	2,051	1,420	502	19	110
Medicaid	536	91	16	365	63
Other government	236	172	6	39	19

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[1] Less than $.50.

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review, Fall 1984 No. 1, p. 1.

BACKGROUND DATA ON LONG-TERM CARE [3] [4]

This section includes information on the characteristics of the disabled elderly population and its utilization of long-term care services. It also reviews public sector programs that support long-term care. At the end of this section, a few paragraphs discuss the chronically ill child population, another population that depends upon long-term care services.

The phrase "long-term care" refers to a wide array of medical, social, personal, supportive, and specialized services needed by individuals who have lost some capacity for self-care due to chronic illness or physical or mental conditions which result in both functional impairment and physical dependence on others for an extended period of time. Major subgroups of individuals needing long-term care include the elderly and non-elderly disabled, the developmentally disabled (primarily the mentally retarded), and the mentally ill. This section focuses on long-term care services required by the elderly, generally those persons 65 years and older, who are the primary users of long-term care in this country.

Estimating the number and characteristics of the disabled elderly population

The probability that an individual will require long-term care services, whether in a nursing home or in the community, is influenced strongly by his or her disability status. A common approach to measuring the number of disabled elderly in the population is to determine how many elderly individuals require assistance to overcome limitations in various ADLs (activities of daily living) and IADLs (instrumental activities of daily living). ADLs refer to personal care activities and can include such activities as eating, bathing, dressing, toileting, getting in and out of bed, walking and going outside. IADLs are home management activities, and can include such activities as preparing meals, shopping for personal items, managing money, using the telephone, doing heavy housework and doing light housework. Different survey instruments designed to measure the disabled elderly population have used different numbers and types of ADLs and IADLs, making survey comparisons difficult. Therefore, read all table footnotes carefully to understand what measures the estimates are based on.

Table 17 shows the disability prevalence rates for the elderly population, based on the 1982–84 National Long Term Care Survey (the noninstitutionalized) and the 1985 National Nursing Home Survey Current Resident File (the institutionalized). The National Long Term Care Survey identified elderly individuals who were living in the community and who were functionally impaired in ADLs or IADLs for at least 3 months. In table 17, an individual is assigned to one of four disability levels: (1) a deficiency in one or more of eight IADLs; (2) a deficiency in exactly one of five ADLs;

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[3] This subsection draws heavily from "Financing and Delivery of Long-Term Care Services for the Elderly," by Carol O'Shaughnessy and Richard Price, Congressional Research Service, May 25, 1988, and "Long Term Care for the Elderly," by Price and O'Shaughnessy, November 1, 1988.

[4] For a detailed analysis of various options for financing long-term care in the future, see "Caring for the Disabled Elderly," by Alice Rivlin and Joshua Wiener, the Brookings Institution, 1988.

(3) a deficiency in two or more ADLs; or (4) no disability. These data show that a smaller percentage of the elderly in the community than in nursing homes are disabled; note, however, that substantially more of the elderly with ADL limitations live in the community than live in nursing homes. These data also show that the proportion of the population with two or more ADL limitations increases with age, especially from around age 80.

Another survey instrument designed to measure disability prevalence rates, the National Health Interview Survey Supplement on Aging (SoA), comes up with significantly higher estimates of disability prevalence among the elderly living in the community (see table 18). The SoA did not limit its sample to persons who experienced a functional limitation for a given period of time, as did the National Long Term Care Survey. Thus, these data provide an upper-bound estimate of the potential utilization of long-term care services since the data measure the percent of the elderly who have difficulties at a point in time, but not necessarily the presence of a functional limitation that results in the need for a long-term care service.

Table 19 provides a breakdown of the disabled elderly population for 1985. It shows that approximately 1.3 million elderly persons resided in nursing homes in 1985, representing 5 percent of the elderly population. As estimated based on the National Long-Term Care Survey, an additional 4.9 million elderly persons with disabilities resided in the community, representing 17 percent of the elderly population.

Characteristics of nursing home residents.—When the elderly nursing home population is examined by age category, residents aged 85 and over comprise the largest age group (46 percent), followed by those 75–84 years of age (39 percent) and those 65–74 (15 percent).

Elderly nursing home residents are also predominantly female. Almost 77 percent of elderly residents were female in 1985. The use of nursing homes increases with age for both males and females, but women use nursing homes at significantly higher rates than men regardless of age group and especially at the very oldest age category. This greater rate of utilization by elderly women reflects their longer life expectancy and the greater likelihood of persons without spouses and in poor health to enter nursing homes.

According to the 1985 National Nursing Home Survey, conducted by the National Center for Health Statistics, the number of elderly residents in nursing homes increased 17 percent from 1977 to 1985. Those 85 years of age and over accounted for 76 percent of the increase in elderly residents from 1977 to 1985. One study has estimated that the elderly nursing home population will grow to 2 million by the year 2000, to 2.8 million by the year 2020, and to nearly 4.6 million by the year 2040 (see chart 1).

Most elderly nursing home residents require assistance with basic ADLs, and a majority require assistance in two or more ADLs (see table 17). In general, elderly nursing home residents were more dependent in performing ADLs in 1985 than in 1977. A larger proportion required assistance or had difficulty with bathing, using the toilet room, continence, and eating. This can be explained in part by the increasing number and proportion of very old persons

(85 and over) residing in nursing homes. However, the proportion of residents functionally dependent in each ADL was generally higher in 1985 than in 1977 when age was held constant. This might be the result of various State screening programs that have attempted to control expenditures for nursing home care by limiting placement in nursing homes to those with the greatest functional dependencies.

TABLE 17.—DISABILITY PREVALENCE RATES FOR THE ELDERLY IN NURSING HOMES AND LIVING IN THE COMMUNITY [1]

[In percent]

	IADL only		1 ADL		2+ ADL's	
	Married	Unmarried	Married	Unmarried	Married	Unmarried
Disability prevalence rates for the noninstitutionalized: [2] [3]						
65 to 69	3.79	4.96	1.74	2.69	3.45	3.67
70 to 74	5.01	6.62	2.68	3.73	5.11	4.66
75 to 79	6.90	8.64	3.24	5.77	7.71	7.15
80 to 84	10.34	11.25	6.03	8.07	12.93	11.35
85 to 89	11.36	13.64	7.57	11.21	21.77	15.81
90+	7.50	15.45	20.00	13.69	26.25	31.35
Nursing home disability prevalence rates: [2]						
65 to 69	7.8	18.6	6.8	19.1	85.5	62.3
70 to 74	5.6	13.4	8.7	14.6	85.7	72.1
75 to 79	5.3	11.4	9.3	13.5	85.4	75.0
80 to 84	7.9	8.0	5.6	14.0	86.5	78.0
85 to 89	3.6	6.4	10.1	11.3	86.3	82.2
90+	3.5	4.5	2.3	10.6	94.2	84.9

[1] Prevalence rates are expressed as percentages.

[2] Disabled individuals are defined as those who are unable to conduct at least one IADL (doing heavy work, doing light work, preparing meals, shopping for groceries or other personal items, getting around inside, walking outside, managing money, and using the telephone) or unable to conduct at least one of five activities of daily living (eating, bathing, dressing, toileting, and getting in and out of bed).

[3] In the 1982–84 NLTC survey, disability was defined as the inability to conduct any of the ADL's or IADL's due to a health condition which had or would endure for 90 days or more.

Sources: Brookings Institution and Lewin/ICF calculations using data from the 1982–84 National Long-Term Care Survey and the 1985 National Nursing Survey Current Resident File.

TABLE 18.—PERCENT DISTRIBUTION OF PERSONS 65 YEARS OF AGE AND OVER BY NUMBER OF PERSONAL CARE ACTIVITIES OR HOME MANAGEMENT ACTIVITIES THAT ARE DIFFICULT, BY AGE, 1984

Age	Number of difficult activities					
	Total	None	1	2	3	4–7 (ADL's) 4–6 (IADL's)
	Personal care activities (ADL's) [1]					
Years:						
65 to 69	100.0	85.3	6.8	3.1	1.5	3.2
70 to 74	100.0	79.9	9.1	4.4	2.4	4.2
75 to 79	100.0	75.9	10.8	4.3	3.3	5.7
80 to 84	100.0	65.6	12.1	7.4	4.6	10.4
85+	100.0	51.2	12.8	10.2	6.7	19.2
	Home management activities (IADL's) [2]					
65 to 69	100.0	81.9	11.5	2.5	1.3	2.8
70 to 74	100.0	76.3	14.8	3.4	1.7	3.7
75 to 79	100.0	70.8	15.9	4.8	2.6	5.8
80 to 84	100.0	60.0	17.9	7.5	4.1	10.6
85+	100.0	44.8	15.2	9.3	6.6	24.2

[1] Bathing, dressing, eating, getting in and out of bed and chairs, walking, going outside, and using the toilet.

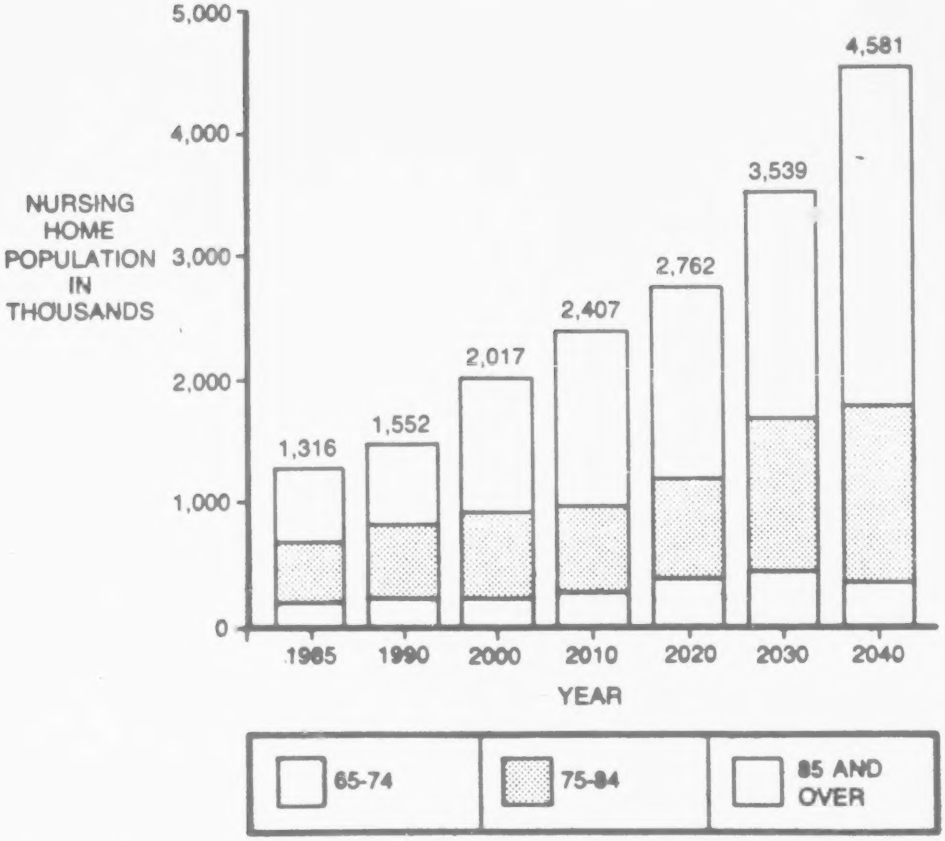
[2] Preparing meals, shopping for personal items, managing money, using the telephone, doing heavy housework, and doing light housework.

Note: Figures may not add to 100.0 because of rounding.

Source: U.S. Senate Special Committee on Aging, Aging America: Trends and Projections, 1987–88 Edition, Tables 4–2 and 4–3; based on Deborah Dawson, Gerry Hendershot, and John Fulton, "Aging in the Eighties: Functional Limitations of Individuals Age 65 Years and Over," Advance Data No. 133, National Center for Health Statistics (June 10, 1987).

CHART 1

PROJECTIONS OF THE NURSING HOME POPULATION 65 YEARS AND OLDER BY AGE GROUP: 1985-2040



Source: U.S. Senate Special Committee on Aging. "Nursing Home Stays." Aging America: Trends and Projections. 1987-88 Edition, based on U.S. Administration on Aging, unpublished projections based on nursing home utilization rates from the 1985 National Nursing Home Survey and population projections from the U.S. Bureau of the Census.

TABLE 19.—NUMBER AND DISTRIBUTION OF DISABLED ELDERLY, BY PLACE OF RESIDENCE, 1985

Category	Total number of elderly (millions) [1]	Disabled elderly					
		Nursing home		Community		Total [2]	
		Number (millions)	Percent	Number (millions)	Percent	Number (millions)	Percent
Age:							
65 to 74	16.9	0.2	15.4	2.1	41.9	2.3	36.5
75 to 84	9.1	.5	38.5	2.0	40.9	2.5	40.0
85 and over	2.7	.6	46.2	1.0	19.7	1.6	25.0
Sex:							
Male	11.4	.3	23.1	1.7	35.3	2.1	33.2
Female	17.2	1.0	76.9	3.3	66.2	4.3	68.0
Race: [3]							
White	25.9	1.2	92.3	4.2	84.0	5.4	85.9
Black	2.3	.1	7.7	.6	13.0	.7	11.6
Number of ADL dependencies: [4]							
Fewer than three		.4	28.5	3.3	67.0	3.7	58.9
Three or more		.9	71.5	1.6	33.2	2.6	41.3
Total	28.6	1.3	100.0	4.9	100.0	6.3	100.0

[1] Includes disabled and nondisabled elderly.

[2] Sum of the number of elderly in nursing homes and the estimated number of noninstitutionalized disabled elderly on an average day.

[3] Numbers may not add because the number of elderly of other race or unknown race is not included.

[4] Inability to perform the activities of daily living—eating, bathing, dressing, toileting, getting in and out of bed, and getting around inside.

Source: "Caring for the Disabled Elderly," by Alice Rivlin and Joshua Wiener, the Brookings Institution, 1988, based on: 1982 National Long-Term Care Survey; Esther Hing, "Use of Nursing Homes by the Elderly: Preliminary Data from the 1985 National Nursing Home Survey," Vital and Health Statistics (advance data), no. 135 (Hyattsville, Md.: National Center for Health Statistics, Department of Health and Human Services, May 14, 1987), p. 2; U.S. Bureau of the Census, "Projections of the Population of the United States, by Age, Sex, and Race, 1983 to 2080," Current Population Reports, series P–25, no. 952 (Washington, D.C.: Department of Commerce, May 1984), table 6; and National Center for Health Statistics, "Health Statistics on Older Persons, United States, 1986," Vital and Health Statistics, series 3, no. 25 (Hyattsville, Md.: DHHS, June 1987), p. 15. Figures are rounded.

Nursing home utilization and facility characteristics.—Table 20 presents data which describe the annual probability that an elderly individual will enter a nursing home. The probability varies by marital status, age, and disability status.

Analysis of nursing home utilization for those persons actually entering a nursing home has found a high degree of variance in the length-of-stay. In general, analysis has found two broad categories of persons using nursing home care—those who have short lengths of stay and those with long stays. One model developed with data from two previous National Nursing Home Surveys found that long-stayers stay an average of 2.5 years, and short-stayers an average of 1.8 months. Other analysis, such as the one described in table 21 below, estimates that the great majority of persons entering a nursing home stay for relatively short periods of time. For example, table 21 below shows that 75 percent of married 65 to 74 year old persons entering a nursing home stay less than 1 year (they exit alive or dead), and about one-half of all married 65 to 74 entrants stay less than 3 months. Few married persons in this age group entering a nursing home—roughly 12 percent—stay more than 3 years. Even though only a small fraction of all nursing home entrants stay 3 or more years, this group nevertheless accounts for a substantial fraction of nursing home bed-days used.

Table 22 provides characteristics of the nursing homes themselves. Note that these data include not only elderly nursing home residents, but also the nonelderly resident population. Table 23 details, for each of the 50 States, the number of skilled nursing facility and intermediate care facility beds, and the number of beds per 1,000 aged population 65 years of age or over. Note that many different factors can explain the great interstate variation in the number of nursing home beds per aged population, including the cost of providing care, the supply of alternative care (hospital beds per aged population), climate (elders in colder climates experience greater climate-related health risks, greater risks of independent living, and greater heating costs), and variation in spend-down eligibility levels and per diem ICF reimbursement rates for Medicaid.[5]

Characteristics of the disabled elderly in the community and their caregivers.—Estimates of the disabled elderly living in the community can vary widely, depending upon how disability is measured and whether the disability must be chronic. As noted above, table 19 provides an estimate of the disabled elderly in the community based on the National Long-Term Care Survey. 4.9 million persons were identified as living in the community and impaired in ADLs or IADLs for at least ninety days. Compared to the institutionalized elderly population, these disabled elderly in the community are on average less disabled. Even so, there are actually more severely disabled elderly living in the community than in institutions.

Results from surveys show that most of the disabled elderly living in the community receive assistance for ADL and IADL problems from spouses, children, or other informal sources of support. Of the 4.9 million functionally limited elderly, it is estimated that more than 70 percent rely exclusively on nonpaid sources of assistance. This finding corresponds to other research that has estimated that between 60 to 80 percent of the care received by the impaired elderly is provided by relatives and friends who are not compensated for the care they provide.

There is evidence that informal care giving is one of the key factors in delaying or preventing institutionalization of the frail elderly. Informal services are largely provided by middle-aged people (ages 45 to 64) and "young old" people (ages 65 to 74) for "old-old" people (ages 75 and over). Estimates from the 1982 National Long-Term Care Survey showed that the average age of caregivers of the impaired elderly was 57 years. One-quarter of caregivers was aged 65 to 74, and 10 percent was 75 years or older. As the population ages, very old chronically ill parents with children who themselves are retired or chronically impaired will become more common. Researchers have noted that the probability of young elderly (ages 65 to 69) women having at least one survivingparent ages 85 or older will more than double over the next 60 years.

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[5] See "Nursing Home Bed Capacity in the States, 1978-86," by Charlene Harrington, James H. Swan, and Leslie A. Grant, Health Care Financing Review, Summer 1988, Volume 9, Number 4.

TABLE 20.—ANNUAL PROBABILITY OF NURSING HOME ENTRY, BY DISABILITY LEVEL, FOR ELDERLY PERSONS WHO HAVE NEVER BEEN IN A NURSING HOME

[In percent]

	Nondisabled		IADL deficiencies only		One ADL deficiency		Two or more ADL deficiencies	
	Married	Unmarried	Married	Unmarried	Married	Unmarried	Married	Unmarried
Age:								
65 to 69	0	1	2	3	3	4	4	6
70 to 74	1	1	3	5	4	6	6	9
75 to 79	1	3	5	8	6	9	9	13
80 to 84	2	5	7	11	8	13	12	18
85 plus	5	14	12	18	21	14	20	29

Note: Values represent the probability of nursing home entry for the midpoint of the age category (i.e., for 65–69 years of age the value reported is the probability of nursing home entry for someone 67 years of age). Rates for nondisabled persons are the average of male and female rates.

Source: Lewin/ICF and Brookings Institution calculations using data from the 1982–84 national long-term care survey and the 1985 national nursing home survey.

TABLE 21.—NURSING HOME LENGTH OF STAY PROBABILITIES BY AGE OF ENTRY AND MARITAL STATUS

[In percent]

Length of stay (in days)	Married			Unmarried		
	65–74	75–84	85+	65–74	75–84	85+
1 to 29	29	32	30	21	20	19
30 to 59	13	14	14	12	11	10
60 to 89	8	5	5	7	5	6
90 to 179	14	10	9	10	10	12
180 to 364	11	9	10	9	12	12
365 to 729	8	10	10	9	11	13
730 to 1,094	6	4	5	7	7	8
1,095 to 1,469	3	3	4	4	6	6
1,470 to 1,824	3	2	5	3	4	4
1,825 to 2,189	2	3	2	3	3	3
2,190+	4	7	6	15	10	9
Total	100	100	100	100	100	100

Source: Brookings Institution and Lewin/ICF calculations using data from the 1985 National Nursing Home Survey.

TABLE 22.—SELECTED FACILITY CHARACTERISTICS FOR NURSING HOMES, 1973–74, 1977, AND 1985

Survey year	Facility characteristics								
	Homes	Beds	FTE's per 100 beds [1]	Current residents					Beds per 1,000 persons 65 years or over
				All ages	65 years and over				
					Total	65–74	75–84	85+	
1973–74	15,700	1,177,300	41.2	1,075,800	961,500	163,100	384,900	413,600	55.2
1977	18,900	1,402,400	46.2	1,303,100	1,126,000	211,400	464,700	449,900	59.7
1985	19,100	1,624,200	48.9	1,491,400	1,318,300	212,100	509,000	597,300	56.9

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[1] Includes only those providing direct patient care: Administrative, medical, and therapeutic staff; registered nurses; licensed practical nurses; nurse's aides; and orderlies. The FTE's are calculated by dividing part-time hours by 35 and adding the results to full-time employees.

Source: National Center for Health Statistics, Advance data, March 1987.

TABLE 23.—NUMBER OF SKILLED NURSING AND INTERMEDIATE CARE FACILITY BEDS, BY STATE, 1986

	Total	Number per 1,000 aged population [1]
Total United States	1,519,426	52.1
Alabama	21,970	44.1
Alaska	830	45.7
Arizona	13,734	33.5
Arkansas	21,860	63.5
California	118,430	41.7
Colorado	18,109	61.9
Connecticut	27,198	64.3
Delaware	3,906	54.1
District of Columbia	3,760	49.1
Florida	55,225	26.7
Georgia	34,742	56.7
Hawaii	2,769	26.9
Idaho	4,910	43.3
Illinois	89,333	64.2
Indiana	48,244	73.5
Iowa	33,296	79.7
Kansas	27,024	81.7
Kentucky	20,424	45.3
Louisiana	33,853	75.1
Maine	9,758	62.2
Maryland	23,934	50.9
Massachusetts	47,126	59.4
Michigan	48,857	46.9
Minnesota	47,490	89.6
Mississippi	14,454	45.8
Missouri	46,892	67.5
Montana	6,531	65.1
Nebraska	16,535	75.5
Nevada	2,659	26.8
New Hampshire	6,791	56.6
New Jersey	33,214	34.2
New Mexico	5,884	40.8
New York	93,747	43.4
North Carolina	23,540	32.2
North Dakota	6,820	76.3
Ohio	83,991	63.7
Oklahoma	31,665	76.9
Oregon	15,357	42.2

TABLE 23.—NUMBER OF SKILLED NURSING AND INTERMEDIATE CARE FACILITY BEDS, BY STATE, 1986—Continued

	Total	Number per 1,000 aged population [1]
Pennsylvania	84,338	48.8
Rhode Island	9,759	69.0
South Carolina	12,981	36.5
South Dakota	7,851	79.2
Tennessee	29,708	50.6
Texas	103,423	65.6
Utah	5,728	42.7
Vermont	3,367	51.6
Virginia	22,448	37.2
Washington	26,345	50.8
West Virginia	8,365	32.0
Wisconsin	53,170	84.8
Wyoming	2,081	48.6

[1] Number of beds per aged population 65 years or over.

Source: Institute for Health and Aging. 1986.

TABLE 24.—PERCENT DISTRIBUTION OF CAREGIVERS AND DAYS OF CARE FOR PEOPLE 65 AND OVER WITH LIMITATIONS IN ACTIVITIES OF DAILY LIVING, BY RELATIONSHIP TO RECIPIENT, 1982

Age and sex of recipient	Caregivers					Days of care				
	Relationship of caregiver to recipient					Relationship of caregiver to recipient				
	Total	Spouse	Child	Other relative	Formal	Total	Spouse	Child	Other relative	Formal
65 plus										
Male	100	37	24	23	16	100	53	19	18	11
Female	100	10	34	35	21	100	17	37	30	16
65 to 74										
Male	100	45	21	21	13	100	61	15	15	9
Female	100	18	29	33	20	100	31	27	28	14
75 to 84										
Male	100	35	23	25	17	100	53	18	18	11
Female	100	8	35	36	21	100	14	38	32	15
85 plus										
Male	100	20	34	27	19	100	31	31	22	16
Female	100	2	39	36	23	100	3	47	30	19

Note: Formal caregivers typically receive payment for services compared with informal caregivers (usually relatives) who are not compensated.

Source: United States Senate Special Committee on Aging, "Aging America: Trends and Projections," 1987–88 edition, table 4–12, p. 121, based on Manton, Kenneth and Korbin Liu "The Future Growth of the Long-Term Population: Projections Based on the 1977 National Nursing Home Population and the 1982 Long-Term Care Survey," Paper prepared for the Third National Leadership Conference on Long-Term Care Issues, Washington, DC, March 7–9, 1984.

Table 24 provides a percent distribution of care-givers by their relationship to the elderly recipient and a percent distribution of caregivers by days of care given to elderly recipients. This table shows that, for males ages 65 to 84 with ADL limitations, wives are the predominant source of informal caregiving. However, the role of children and other relatives is still important for this group, and children and other relatives are the predominant caregivers for males ages 85 or more. For aged females with ADL limitations, children and other relatives are usually the predominant caregivers. The higher proportion of wives caring for husbands than of husbands caring for wives reflects, among other things, the tendency for wives to outlive their husbands and the lower probability of remarriage among widows than widowers.

Public and private spending for long-term care

Comprehensive data on total national spending for long-term care, from public and private sources, through Federal and State programs, and for institutional and noninstitutional care, are difficult to obtain. Table 25 represents the most recent attempt to quantify this spending. These CBO preliminary estimates show that in fiscal year 1985, total public and private spending for both nursing home and certain home health care services amounted to about $45 billion. This total is for *all* age groups using long-term care. Of this total, about $36 billion, or about 80 percent of total long-term care expenditures, was spent for nursing home care. Public programs paid $19 billion, or 53 percent of the Nation's total spending for nursing home care. Federal and State Medicaid payments for nursing home care accounted for $17 billion of this $19 billion total.

Private spending for nursing home care amounted to about $17 billion in fiscal year 1985. Nearly all (97 percent) private spending for nursing home care is paid directly by consumers out-of-pocket. Private insurance coverage for long-term nursing home care is very limited, with private insurance payments amounting to less than 1 percent of total spending for nursing home care in fiscal year 1985.

CBO estimates that total spending for home health care amounted to about $9 billion in fiscal year 1985. This amount represents about 20 percent of total spending for all long-term care services. These estimates for home health care should be approached with caution since certain public program and private spending data for home health care are especially difficult to aggregate. In addition, CBO's total for home health care does not include spending for certain nonmedical home and community-based care services. CBO estimates that the $9 billion total for home health care spending was about evenly split between public and private sources of payment. Out-of-pocket expenditures accounted for about 80 percent of private spending, private insurance again being very limited for this care. As noted above, most home and community-based care is provided by family and friends free of charge, and therefore does not show up as a cost in table 25.

TABLE 25.—ESTIMATED SPENDING FOR LONG-TERM CARE IN FISCAL YEAR 1985, BY TYPE OF SERVICE AND PAYMENT SOURCE [1]

[Dollars in billions]

Source of payment	Nursing home care [2]	Home health services [3]	Total	Distribution of total spending by source (in percent)
Total	$35.8	$9.1	$44.9	100
Federal	10.9	3.5	14.4	32
Medicare	.6	2.3	2.9	7
Medicaid	9.5	.6	10.0	22
VA and other [4]	.8	.6	1.5	3
State/local	8.2	1.0	9.1	20
Medicaid	7.7	.5	8.2	18
Other [5]	.4	.5	.9	2
Private (formal)	16.7	4.6	21.3	48
Out-of-pocket	16.2	3.7	19.8	44
Other [6]	.6	.9	1.5	3

[1] The data in this table include "formal" long-term care only. "Formal" care denotes paid services or care received through the market, whereas "informal" care, an invisible cost, is free assistance given by families and friends. It is estimated that more than 70 percent of the 4.9 million functionally limited elderly in the community rely exclusively on nonpaid sources of assistance.

[2] Nursing home care includes services provided in skilled nursing facilities, intermediate care facilities, combinations of skilled and intermediate nursing facilities, intermediate care facilities for the mentally retarded, and noncertified facilities providing some nursing care.

[3] The home health services included are: nursing care, speech therapy, physical therapy, occupational therapy, services provided by home health aides, and medical social services. Payments for adult day care, meals, and transportation services are excluded.

[4] Federal payments for home health services are also provided under the Older Americans Act and the social services block grant.

[5] Other State funding consists mainly of Medicaid-related payments for which there was no Federal matching.

[6] Other private sources of payment include private organizations and private insurers.

Source: Congressional Budget Office preliminary calculations based on estimates from the Actuarial Research Corp.

Note: Details may not add to totals because of rounding.

Federal spending on long-term care has outstripped the growth of the rest of the budget significantly in recent years. For example, between fiscal years 1981 and 1986, Medicaid payments to skilled nursing facilities increased 14 percent in real terms, Medicaid payments to intermediate care facilities increased 29 percent, and Medicaid home health payments increased 157 percent. This significant growth is expected to continue, and is expected to be fueled further by rapid increases in the elderly population and the aging of the elderly population.

Federal programs

At least 80 Federal programs assist persons with long-term care problems, either directly or indirectly through cash assistance, in-kind transfers, or the provision of goods and services. Among these 80 programs, 5 are generally considered to be the major programs of Federal support for long-term care: Medicaid, Medicare, the

Social Services Block Grant (SSBG), the Older American Act, and the Supplemental Security Income program (SSI). It should be noted that there are a large number of other Federal programs providing services, such as specialized housing and transportation services, to the functionally disabled elderly. In addition, numerous long-term care benefits are offered to veterans through the Veterans Administration (VA). No one program, however, has been designed to support a full range of long-term care services on a systematic basis.

The Medicare program is intended to address the acute medical care needs of the aged and disabled. The program was not designed to respond specifically to the chronic care needs of the elderly, for instance those with Alzheimer's disease, over a sustained period of time. For this reason, it offers only very limited protection against the cost of nursing home care and home care.

The Medicaid program, on the other hand, does support long-term services, principally nursing home care, but only for certain low-income people or for persons who have depleted their income and assets entering the nursing home as privately paying patients. In general, Medicaid support for the chronically impaired elderly living in the community has been quite limited.

While the Medicaid program is the predominant Federal program supporting long-term care services, two Federal social service programs provide community-based services which may prevent or delay institutionalization—the SSBG program and the Older Americans Act. However, their total resources are small in comparison with total Medicaid expenditures devoted to both institutional and community-based long-term care services. The SSBG program is generally limited to the provision of social services selected and defined by the State, and provides services not only to the elderly, but also to families and children. Funding under title III of the Older Americans Act is used for the development of a service delivery system for older persons, focusing on social and nutrition services, and in the 100th Congress, separate funding for in-home services for the frail elderly was authorized.

In addition to these programs, the SSI program provides cash assistance to needy aged, blind, disabled individuals, but can include, at the discretion of the States, supplemental payments to support selected community-based, long-term care services.

While these various Federal programs supporting long-term care provide a measure of flexibility to target services on specific groups or needs, their differing eligibility requirements, service benefits, service definitions, and reimbursement policies have resulted in a fragmented and uncoordinated long-term care policy at the Federal level. In addition, this lack of coordination among Federal programs has also presented major implementation challenges to the States, especially where certain of these programs delegate administrative responsibility to State governments.

Table 26 summarizes some of the major differences among Federal programs which support institutional and community-based care.

TABLE 26.—MAJOR FEDERAL PROGRAMS SUPPORTING LONG-TERM CARE SERVICES: SERVICES COVERED, ELIGIBILITY, AND ADMINISTERING AGENCY

Program	Services covered	Eligibility	Administering agency	
			Federal	State
Medicaid/Title XIX of the Social Security Act.	Skilled nursing facility.[1] Intermediate care facility.[2] Home health.[3] Adult day care.[2] Personal care.[2]	Aged blind, disabled persons receiving cash assistance under SSI; others receiving cash assistance under AFDC. At State option, persons whose income exceeds standards for cash assistance under SSI/AFDC, i.e., the "medically needy."	Health Care Financing Administration/HHS.	State Medicaid agency.
	Section 2176 waiver services, e.g., case management, homemaker, personal care, adult day care, habilitation, respite, and other services at State option.[4]	Aged, blind, disabled, or mentally ill Medicaid eligibles (including children) living in the community who would require nursing home level of care. At State option, persons living in the community with higher income than normally allowed under a State Medicaid plan.		In some cases, the 2176 "waiver" program may be administered by another agency, e.g., State agency on aging.
Medicare/Title XVIII of the Social Security Act.	150 days of skilled nursing care facility. Home health. Hospice.	Generally Social Security status. Persons 65 years and over; persons under 65 years entitled to Federal disability benefits; and certain persons with end-stage renal disease.	Health Care Financing Administration/HHS.	N/A.
Social Services Block Grant/Title XX of the Social Security Act.	Variety of social services as defined by the State, including homemaker, home health aide, personal care, home-delivered meals, and adult day care.	No Federal requirements. States may require means tests.	Office of Human Development Services/HHS.	State social services/human resources agency. In some cases other State agencies may administer a portion of title XX funds for certain groups e.g., State agency on aging.

TABLE 26.—MAJOR FEDERAL PROGRAMS SUPPORTING LONG-TERM CARE SERVICES: SERVICES COVERED, ELIGIBILITY, AND ADMINISTERING AGENCY—Continued

Program	Services covered	Eligibility	Administering agency	
			Federal	State
Older Americans Act/Title III.	Variety of social services as determined by State and area agencies on aging with priority on in-home services. Also case management, day care, protective services. Separate appropriation for home-delivered meals/and for in-home services for the frail elderly, including adult day care as a respite for families, and minor home modifications.	Persons 60 years and over. No means tests, but services are to be targeted on those with social or economic need.	Administration on Aging/Office of Human Development Services/HHS.	State agency on aging.
Supplemental Security Income/ Title XVI of the Social Security Act.	Federal income support. Maximum Federal payment for persons with no income is $368 per individual and $553 per couple in 1989. Supplemental payment for nonmedical housing and/or in-home services, at State option.	Aged, blind, disabled persons who meet federally established income and resources requirements. States may make payments to other State-defined eligibility groups.	Social Security Administration/ HHS.	State supplemental payment program may be State or federally administered.

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[1] Required for individuals over age 21.

[2] At option of State.

[3] Required for individuals entitled to skilled nursing home care.

[4] May be offered under a waiver of certain Medicaid State plan requirements, if requested by the State and approved by HHS.

Source: "Financing and Delivery of Long-Term Care Services for the Elderly," by Carol O'Shaughnessy and Richard Price, Congressional Research Service, May 25, 1988.

Federal research and demonstration projects

Two alternative and potentially complementary rationales have been offered for broadening the range of available long-term care services and expanding their level of supply. The broader rationale is to improve the quality of life for people whose capacity for independent living is limited by disabilities and, in addition, for their caregivers. A more specific and fiscally oriented rationale is to reduce the cost of institutional long-term care services in general, and the public sector's share of these costs in particular, by using home- and community-based services where institutional services are either unnecessary or unnecessarily intensive.

Federal research and demonstration projects have addressed both rationales but have focused particularly on the second one. These projects have attempted to test new ways of providing and coordinating long-term care services. With nursing home care representing the dominant portion of public and private expenditures for long-term care, the projects have sought: (1) to reduce the cost of long-term care by reducing inappropriate institutionalization and the demand for institutional care by people who could otherwise be served through community-based services at less cost; (2) to test whether a carefully managed system of care would create more efficient use of existing resources and deter unnecessary institutionalization; and (3) to make available to clients a wider range of community-based services than previously existed.

The largest of these projects was the National Long-Term Channeling Demonstration program, and its results are broadly indicative of those from other projects. The Department of Health and Human Services (DHHS) funded Channeling to test the effects of expanded access to community-based services and of case-managing these services. Channeling increased total long-term care costs for the population served because it increased the use of formal community services without significantly reducing nursing home use. Furthermore, Channeling did not increase longevity. However, Channeling reduced unmet needs, and increased both clients' confidence in receipt of care and their satisfaction with life. It also increased informal caregivers' satisfaction with service arrangements and satisfaction with life.

A recent major research and demonstration initiative of DHHS currently underway concerns the social-health maintenance organization's (S/HMO) model. This project builds upon and extends the health maintenance organization model, where health care services are offered to a defined population on a prepaid capitation basis. The S/HMO provides not only conventional health care services to a group of elderly persons but also provides a range of long-term care services including (limited) nursing home care, home health and homemaker services (long-term care services are covered up to a maximum dollar amount per year and require a copayment; the limits range from $6,500 per year to $12,000). Among the questions to be addressed by this demonstration are whether a consolidated prepaid system of acute and long-term care can produce greater savings than conventional HMOs already serving Medicare beneficiaries, and whether the long-term care services offered through the program will reduce use of acute hospital beds, nursing home admissions and the number of persons who become eligible for Medicaid's nursing home benefit.

State level initiatives

The Medicaid, Social Services Block Grant, and Older Americans Act programs all delegate administration and implementation responsibility to the States, and in so doing, require the States to deal with problems inherent in the different goals of these programs, as well as their varying eligibility requirements, service benefits, and reimbursement policies. These implementation problems have also resulted from the fact that fragmentation at the Federal level has been mirrored in State administration, with major long-term care programs being administered by different State agencies.

Many States have responded to these challenges by enacting legislation and/or creating intitiatives to reorganize and restructure benefits offered through the Federal programs, and to consolidate the administration of various long-term care programs in a single State agency.

State initiatives to alter and coordinate their long-term care policies were inspired, in part, by federally sponsored demonstration projects begun in the 1970s. Despite the mixed and rather negative results of the federally sponsored demonstration efforts with respect to the impact of expanded community-based care on the costs of care, the directions established by the demonstrations have had widespread influence on State program development. For example, demonstrations funded under Medicaid and Medicare waiver authorities and the Older Americans Act research and demonstration authorities have served as models for State-mandated case management systems and nursing home preadmission screening programs. Some States have, through the creative use of Medicaid, SSBG, and Older Americans Act funds, created major system-wide changes in the way in which community care is organized and delivered. In addition, demonstration initiatives have also served as a testing ground for new community-based service models. For example, adult day care demonstrations which took place during the 1970s encouraged State and local agencies to merge existing health and social service funds available under Medicaid, SSBG, and the Older Americans Act to create the now more than 1200 adult day care programs in existence.

Certain parallel activities have been initiated by States without the benefit of Federal demonstration funds and without any changes in Federal legislation. Some States have developed statewide community care programs, and as one author points out, where such systems exist, frequently State revenues are the dominant source of funding. Reliance on State funding has the advantage of allowing States to design programs without the restrictions that accompany Federal funding. Other States have addressed community-based long-term care needs by redirecting existing Federal program funds or by using existing Federal and complementary State funds in new ways. For example, the Virginia State Medicaid agency operates a nursing home preadmission screening program through local public health departments for persons likely to be admitted to a nursing home but whose needs could be addressed through community-based services. The Massachusetts State agency on aging has established community-based organizations to manage certain key home care services for older persons through creative use of title III Older Americans Act funds and State funds.

There are several themes evidenced in State level initiatives: controlling institutional access through screening/assessment procedures, reorganizing access to community services, consolidating State administrative and funding responsibilities, creating cost control mechanisms and establishing tax incentives for dependent care.

Chronically ill children

Estimates of the technology-dependent child population.[6]—Technology-dependent children are a vaguely-defined subset of the much larger disabled child population. The term "technology-dependent" refers to those children who use a medical technology (embodied in a medical device) that compensates for the loss of normal use of a vital body function, and who require substantial daily skilled nursing care to avert death or further disability. The ongoing nursing care, usually required for substantial parts of each day, may be provided by a professional nurse or by a trained and skilled parent or other lay caretaker.

This definition can apply to a wide variety of cases, ranging from children requiring the continuous assistance of a device and highly-trained caretaker to those requiring less frequent treatment and intermittent nursing care. Where one draws the line on this continuum largely determines the size of the population categorized as technology-dependent. The Office of Technology Assessment has identified four separate populations, distinguished from one another by their clinical characteristics, that might reasonably be considered technology-dependent (see table 27). The first three groups are narrowly defined and limited to children whose technology dependence is both life threatening and requires frequent and complex nursing tasks. The fourth group of children is less susceptible than the others to long-term hospitalization, largely because the frequency or complexity of required nursing care is substantially lower than for the first three groups. Under a very strict definition of technology dependence, this fourth group might not be included.

Table 27 presents OTA's estimates of the prevalence of technology-dependent children in each of four groups. Precise estimation of prevalence is impossible because of data limitations, so a range of estimates is provided for each group. Table 27 makes it clear that the number of technology-dependent children is quite small (less than 17,000 children) when the definition is limited to groups I–III, but increases dramatically when group IV is included. Furthermore, a large number of additional children not captured by this device-based definition of technology-dependence require at least as great a level of care as the children in group IV. These children include the proportion of children with chronic diseases such as diabetes, hemophilia, and epilepsy who require constant or very frequent nursing care as a consequence of the complexity and quantity of drugs and therapy they receive. If the definition of technology dependence were broadened to include these chronically ill children, the population of technology-dependent children might be several times again as large.

Estimates of the chronically ill child population.—The OTA study mentioned above recognized that, were a less technology-dependent definition of the population used, estimates of the chronically ill child population who might benefit from home care would include many additional children. A group of researchers have estimated the total number of noninstitutionalized children who need assistance in conducting basic physical ADLs.[7] Data for the study are based on a special supplement on home care to the 1979 and 1980 National Health Interview Survey (NHIS). In the supplement, data were collected on the need for assistance in conducting seven ADLs due to disability or other chronic health problems.[8] The results of the study are detailed in table 28. Overall, only about two of every thousand noninstitutionalized persons under 21 years old were limited in one or more of the seven ADLs during 1979–80, representing a total of 174,000 children and youth. Including the approximately 100,000 children and youth who reside in institutional settings for the mentally and physically handicapped would bring the nationwide total of children needing assistance in one or more activities of daily living to approximately 300,000. The data results also show that among noninstitutionalized children and youth with functional limitations, most experience problems with more than one activity. Further, and not detailed in the tables, while special medical equipment played a significant role in assisting functionally impaired children and youth, the most common form of assistance utilized was help from another person. Overall, 86 percent of those with functional limitations rely on help from others in conducting at least one activity of daily living. The responsibility for caring for these children and youths falls primarily on the family.

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[6] This piece draws heavily from: "Technology-Dependent Children: Hospital v. Home Care," a technical memorandum by the Office of Technology Assessment, May 1987.

TABLE 27.—SUMMARY OF OTA ESTIMATES OF THE SIZE OF THE TECHNOLOGY-DEPENDENT CHILD POPULATION, 1987

Defined population	Estimated number of children
Group I: Requiring ventilator assistance	680 to 2,000
Group II:	
Requiring parental nutrition	350 to 700
Requiring prolonged intravenous drugs	270 to 8,275
Group III: Requiring other device-based respiratory or nutritional support	1,000 to 6,000
Rounded subtotal (I+II+III)	2,300 to 17,000
Group IV:	
Requiring apnea monitoring	6,800 to 45,000
Requiring renal dialysis	1,000 to 6,000
Requiring other device-associated nursing	Unknown, perhaps 30,000 or more

Source: Office of Technology Assessment, 1987.

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[7] See "Home Care Needs of Chronically Ill Children," by Paul W. Newacheck, Harriette B. Fox, and Margaret A. McManus, *Caring*, June 1988. This subsection draws heavily from this article.

[8] The ADLs covered seven independent physical activities: walking, except for using stairs; going outside; using a toilet including getting to the bathroom; bathing including a sponge bath; dressing; eating; and getting in and out of bed or chairs. Since many of the sociobiological functions in the ADL are clearly not applicable to toddlers and infants, children dependent on the help of others because of age alone were not counted as having ADL limitations.

TABLE 28.—PREVALENCE OF PROBLEMS IN CONDUCTING ACTIVITIES OF DAILY LIVING FOR CHILDREN UNDER 21 YEARS, UNITED STATES 1979–80

	Number of children per 1,000
Age:	
All ages	23.5
Less than 5 years	21.0
5 to 14 years	26.5
15 to 20 years	20.7
Gender:	
Male	26.3
Female	20.5
Family structure:	
Intact (both parents present)	22.0
Not intact	30.0
Family income	
Less than $10,000	30.9
$10,000 to $24,999	24.0
$25,000 or more	14.5
Prevalence of multiple functional limitations:	
1 or more	23.5
2 or more	17.8
3 or more	13.4
4 or more	10.0
5 or more	7.5
6 or more	6.0
7 or more	3.4

Source: "Home Care Needs of Chronically Ill Children," by Paul A. Newacheck, Harriette B. Fox and Margaret A. McManus, Caring, June 1988, based on Microdata from the 1979–80 National Health Interview Survey.

APPENDIX C. NATIONAL AND INTERNATIONAL HEALTH CARE EXPENDITURES AND HEALTH INSURANCE COVERAGE

NATIONAL HEALTH EXPENDITURES

During 1965 (the year prior to the beginning of the Medicare and Medicaid programs), national health expenditures were $41.9 billion; by 1987, annual expenditures were $500 billion, almost 12 times that amount (see table 1). Hospital care expenditures are the largest component of national health expenditures, representing 39 percent of total national health spending in 1987. In terms of per capita spending, $773 was spent for hospital care in 1987 compared to $676 in 1985, an increase of 14.3 percent over 2 years (see table 3).

Adjusting for inflation, health care expenditures have still increased substantially, rising from $150.9 billion in 1965 (in constant 1987 dollars) to $500 billion in 1987, an increase of about 230 percent (see table 2). The largest increases occurred between 1965 and 1970 (46 percent) and 1980 to 1985 (30 percent). The same trends are found when per capita expenditures are examined. Again, adjusting for inflation, total per capita expenditures increased 169 percent, with the largest increases occurring between 1965 and 1970 (38 percent) and 1980 to 1985 (24 percent) (see table 4).

Of the various sources of payment for personal health care expenditures in 1987, 31.4 percent ($139.1 billion) was paid by private health insurance, 18.4 percent ($81.2 billion) was paid by Medicare, 11.3 percent ($50 billion) was paid by other Federal sources (including Medicaid), 10 percent ($44.1 billion) was paid by State and local sources, and 27.8 percent ($123 billion) was paid by direct (out-of-pocket) payments by individuals. A little over 1 percent was paid by philanthropy and in-plant health services (see table 5).

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TABLE 1.—NATIONAL HEALTH EXPENDITURES: AGGREGATE AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, 1985, 1986 and 1987

[Dollar amounts in billions]

	1965	1970	1975	1980	1985	1986	1987
Total	$41.9	$75.0	$132.7	$248.1	$422.6	$458.2	$500.0
Percent of GNP	5.9	7.4	8.3	9.1	10.6	10.9	11.1
Health services and supplies	$38.4	$69.6	$124.3	$236.2	$407.2	442.0	$483.2
Personal health care	35.9	65.4	117.1	219.7	371.3	404.0	442.6
Hospital care	14.0	28.0	52.4	101.6	167.2	179.6	194.7
Physicians' services	8.5	14.3	24.9	46.8	82.8	92.0	102.7
Dentists' services	2.8	4.7	8.2	15.4	27.1	29.6	32.8
Other professional services	1.0	1.6	2.6	5.7	12.4	14.1	16.2
Drugs and medical supplies	5.2	8.0	11.9	18.8	28.7	30.6	34.0
Eyeglasses and appliances	1.2	1.9	3.2	5.1	7.5	8.2	9.5
Nursing home care	2.1	4.7	10.1	20.4	35.0	38.1	40.6
Other health services	1.1	2.1	3.8	5.9	10.8	11.9	12.0
Program administration and net cost of private health insurance	1.7	2.8	4.0	9.2	23.6	24.5	25.9
Government public health activities	.8	1.4	3.2	7.3	12.3	13.4	14.7
Research, and construction of medical facilities	3.5	5.4	8.4	11.9	15.4	16.3	17.1

Note: Totals may not add due to rounding.

Source: Office of the Actuary, Office of National Cost Estimates, Health Care Financing Administration: "National Health Expenditures, 1986–2000," Health Care Financing Review, Summer 1987, p. 26. Katherine Levit and Mark Freeland. "Data Watch: National Medical Care Spending." Health Affairs, Winter 1988, p. 129.

TABLE 2.—NATIONAL HEALTH EXPENDITURES: IN CONSTANT 1987 DOLLARS, FOR SELECTED CALENDAR YEARS

[Dollar amounts in billions]

	1965	1970	1975	1980	1985	1986	1987
Total	$150.9	$219.6	$280.2	$342.0	$446.2	$474.9	$500.0
Health services and supplies	138.3	203.8	262.5	325.6	429.9	458.1	483.2
Personal health care	129.3	191.5	247.3	302.9	392.0	418.7	442.6
Hospital care	50.4	82.0	110.6	140.1	176.5	186.2	194.7
Physicians' services	30.6	41.9	52.6	64.5	87.4	95.4	102.7
Dentists' services	10.1	13.8	17.3	21.2	28.6	30.7	32.8
Other professional services	3.6	4.7	5.5	7.9	13.1	14.6	16.2
Drugs and medical supplies	18.7	23.4	25.1	25.9	30.3	31.7	34.0
Eyeglasses and appliances	4.3	5.6	6.8	7.0	7.9	8.5	9.5
Nursing home care	7.6	13.8	21.3	28.1	37.0	39.5	40.6
Other health services	4.0	6.1	8.0	8.1	11.4	12.3	12.0
Program administration and net cost of private health insurance	6.1	8.2	8.4	12.7	24.9	25.4	25.9
Government public health activities	2.9	4.1	6.8	10.1	13.0	13.9	14.7
Research and construction of medical facilities	12.6	15.8	17.7	16.4	16.3	16.9	17.1

Note: For the years preceding 1980, the consumer price indices (CPIs) used to calculate constant dollar expenditures are for urban wage earners and clerical workers. For 1980–87, the consumer price indices are for all urban consumers.

Source: CRS analysis of data from Office of the Actuary, Office of National Cost Estimates. Health Care Financing Administration.

TABLE 3.—NATIONAL HEALTH EXPENDITURES: PER CAPITA AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, 1985, 1986, AND 1987

[Dollar amount per capita]

	1965	1970	1975	1980	1985	1986	1987
Total	$205	$349	$590	$1,054	$1,710	$1,837	$1,987
Health services and supplies	188	324	553	1,004	1,647	1,772	1,919
Personal health care	176	304	521	934	1,502	1,620	1,758
Hospital care	69	130	233	432	676	720	773
Physicians' services	42	66	111	199	335	369	408
Dentists' services	14	22	36	65	110	119	130
Other professional services	5	7	12	24	50	56	64
Drugs and medical supplies	25	37	53	80	116	122	135
Eyeglasses and appliances	6	9	14	22	30	33	37
Nursing home care	10	22	45	87	141	153	161
Other health services	5	10	17	25	44	48	48
Program administration and net cost of private health insurance	8	13	18	39	96	98	103
Government public health activities	4	7	14	31	50	54	58
Research, and construction of medical facilities	17	25	37	51	62	65	68

Note: Totals may not add due to rounding.

Source: Office of the Actuary, Office of National Cost Estimates, Health Care Financing Administration: "National Health Expenditures, 1986–2000," Health Care Financing Review, Summer 1987, p. 24. Department of Health and Human Services, "HHS News," Nov. 18, 1987.

TABLE 4.—NATIONAL HEALTH EXPENDITURES: PER CAPITA AMOUNTS, IN CONSTANT 1987 DOLLARS, FOR SELECTED CALENDAR YEARS

[Dollar amount per capita]

	1965	1970	1975	1980	1985	1986	1987
Total	$738	$1,022	$1,246	$1,453	$1,805	$1,904	$1,987
Health services and supplies	677	949	1,168	1,384	1,739	1,837	1,919
Personal health care	634	890	1,100	1,288	1,586	1,679	1,758
Hospital care	249	381	492	596	714	746	773
Physicians' services	151	193	234	274	354	382	408
Dentists' services	50	64	76	90	116	123	130
Other professional services	18	20	25	33	53	58	64
Drugs and medical supplies	90	108	112	110	122	126	135
Eyeglasses and appliances	22	26	30	30	32	34	37
Nursing home care	36	64	95	120	149	159	161
Other health services	18	29	36	34	46	50	48
Program administration and net cost of private health insurance	29	38	38	54	101	102	103
Government public health activities	14	20	30	43	53	56	58
Research and construction of medical facilities	61	73	78	70	65	67	68
Average annual [percentage increase]	65–70	70–75	75–80	80–85	65–87	85–87	86–87
Total	6.7	4.0	3.1	4.4	4.6	4.9	4.4
Health services and supplies	7.0	4.2	3.5	4.7	4.8	5.0	4.5
Personal health care	7.0	4.3	3.2	4.3	4.7	5.5	4.7
Hospital care	8.9	5.2	3.9	3.7	5.3	4.0	3.6
Physicians' services	5.0	3.9	3.2	5.3	4.6	7.4	6.8

Note: For the years preceding 1980, the consumer priced indices (CPIs) used to calculate constant dollar expenditures are for urban wage and clerical workers. For 1980–1987, the consumer price indices are for all urban consumers.

Source: CRS analysis of data from the Office of the Actuary, Office of National Cost Estimates, Health Care Financing Administration.

TABLE 5.—PERSONAL HEALTH CARE EXPENDITURES: AGGREGATE AMOUNTS AND PERCENTAGE DISTRIBUTION FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, 1985, 1986, AND 1987

	1965	1970	1975	1980	1985	1986	1987
	Amount in billions of dollars						
Total	$35.9	$65.4	$117.1	$219.1	$371.3	$404.0	$442.6
Private	28.0	42.9	70.9	133.2	222.9	244.1	267.3
Private health insurance	8.7	15.3	31.2	67.5	113.0	122.9	139.1
Patient direct payments	18.5	26.5	38.1	63.0	105.3	116.1	123.0
Philanthropy and in-plant health services	0.8	1.1	1.6	2.7	4.6	5.0	5.3
Public	7.9	22.4	46.3	86.5	148.3	160.0	175.3
Federal	3.6	14.5	31.4	62.5	112.7	121.8	131.2
State and local	4.3	7.9	14.9	24.0	35.7	38.1	44.1
	Percentage distribution						
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private	78.0	65.6	60.5	60.6	60.0	60.3	60.4
Private health insurance	24.2	23.4	26.7	30.7	30.4	30.4	31.4
Patient direct payments	51.6	40.5	32.5	28.7	28.4	28.7	27.8
Philanthropy and in-plant health services	2.2	1.7	1.3	1.2	1.2	1.2	1.2
Public	22.0	34.3	39.5	39.3	39.9	39.6	39.6
Federal	10.1	22.2	26.8	28.4	30.3	30.3	29.6
State and local	11.9	12.1	12.7	10.9	9.6	9.4	10.0

Note: Totals may not add due to rounding.

Source: Office of the Actuary, Office of National Cost Estimates, Health Care Financing Administration: "National Health Expenditures, 1986–2000," Health Care Financing Review, Summer 1987, p. 29. Department of Health and Human Services, "HHS News," Nov. 18, 1988.

EXPENDITURES FOR HOSPITAL CARE

The American Hospital Association (AHA) compiles detailed measures of expenses of the Nation's community hospitals, which are defined as all non-Federal short-term general and other special hospitals (excluding, after 1971, hospital units of institutions) whose facilities and services are available to the public. Table 6 shows historical expense data for community hospitals from the AHA's National Hospital Panel Survey. The Survey is a monthly survey of a randomly selected sample of about 1,800 of the approximately 5,800 community hospitals.

The total expenses of community hospitals, including expenses for both inpatient and outpatient care, were $161 billion in 1987, an increase of 204 percent over the preceding 10 years. The average cost of a day of hospital care was $581 in 1987, representing a 10-year increase of 221 percent. The increase in hospital inpatient costs per admission, or "cost per case" over the past 10 years was 194 percent, rising to $3,860 in 1987 (see table 6).

Table 6 displays, for measures of hospital expense, data for the years 1965 to 1987. The rate of growth in hospital expenses exceeded the rate of inflation as measured by the CPI in most years.

Until recently, changes in the rate of growth in hospital expenses followed changes in inflation. For example, the medical care component of the CPI and the rates of growth in the adjusted expenses per inpatient day and per admission were all relatively low during the Economic Stabilization Program (August 1971 through 1974). Also, the rates of increase of all four measures of community hospital expenses followed the CPI downward between 1981 and 1984. However, since 1984, hospital expenses have continued to go up, even as inflation has slowed. (A short-term downward trend in the growth rate of hospital expenses which is not reflected in the CPI indexes is evident in the 1976 to 1979 interval. Some analysts have argued that this was due perhaps in part to the initiation in 1978 of a "voluntary effort" to reduce health care costs initiated by the American Hospital Association and other health organizations.)

TABLE 6.—SELECTED COMMUNITY HOSPITAL EXPENSES DATA, TOTALS AND PERCENTAGE INCREASES, 1965–1987

[Dollars in billions]

Year	Total expenses		Adjusted [1] expenses per inpatient day		Adjusted expenses per admission		Inpatient expenses	
	Amount	Percent change	Amount	Percent change	Amount	Percent change	Amount	Percent change
1965	$9.220	8.6	$41	7.5	$315	8.1	$8.414	8.7
1966	10.497	13.8	46	12.2	356	13.0	9.611	14.2
1967	12.624	20.3	53	15.2	425	19.4	11.551	20.2
1968	14.720	16.6	59	11.3	482	13.4	13.371	15.8
1969	17.247	17.2	68	15.2	551	14.3	15.635	16.9
1970	20.261	17.5	78	14.7	608	10.3	18.328	17.2
1971	22.496	11.0	87	11.5	670	10.2	20.269	10.6
1972	25.223	12.1	96	10.3	729	8.8	22.622	11.6
1973	28.248	12.0	105	9.4	784	7.5	25.173	11.3
1974	32.759	16.0	118	12.4	873	11.4	29.077	15.5
1975	38.492	17.5	138	16.9	1,017	16.5	33.971	16.8
1976	45.842	19.1	158	14.5	1,168	14.8	40.321	18.7
1977	53.006	15.6	181	14.5	1,312	12.3	46.437	15.2
1978	59.802	12.8	203	12.2	1,466	11.7	52.131	12.3
1979	67.833	13.4	226	11.3	1,618	10.4	59.060	13.3
1980	79.340	17.0	256	13.3	1,836	13.5	68.962	16.8
1981	94.187	18.7	299	16.8	2,155	17.4	81.651	18.4
1982	109.091	15.8	348	16.4	2,489	15.5	94.346	15.5
1983	120.220	10.2	391	12.5	2,742	10.2	103.403	9.5
1984	126.028	4.6	443	13.3	2,947	7.5	107.000	3.2
1985	134.043	6.6	493	11.2	3,226	9.4	111.402	4.4
1986	146.032	8.9	535	8.6	3,527	9.3	119.281	7.1
1987	161.322	10.5	581	8.6	3,860	9.5	129.300	8.4

[1] Adjusted to account for the volume of outpatient visits.

Note: Percentage changes may not correspond to published data because of rounding.

Source: National Hospital Panel Survey, American Hospital Association.

A variety of factors other than overall inflation contribute to aggregate changes in hospital expenses, including: population growth, aging of the population, which affects admission rates, inflation over and above general inflation in the prices of goods and services purchased by the hospitals (input factor prices), and changes in the type and mix (intensity) of services rendered due to such factors as changes in the use of technology or treatment patterns. Arnett et al. (Health Care Financing Review, spring 1986) estimated that over 51 percent of the overall growth in inpatient hospital expenses between 1974 and 1984was due to overall inflation, approximately 7.3 percent to population growth, 16.6 percent to excess inflation in hospital prices, and 33.4 percent to intensity of services per day.

Expenditures for hospital care are financed primarily by third parties (see table 7). In 1987, private health insurers paid 37 percent of the total, Medicare and Medicaid paid 36.5 percent, and other government programs paid 16 percent. The amount financed directly by consumers was 9.5 percent, up from 8.7 percent in 1985 and 9.4 percent in 1986. In 1986, HCFA attributed the rise in the increase in direct consumer payments to changes in third-party financing and coverage. Medicare beneficiaries were liable for increased deductible and coinsurance amounts in 1986 and 1987, because of changes in the cost per day of hospital care. Many privately insured employees and dependents faced similar changes in copayment requirements as employers pared down their contributions to paying for health care costs. HCFA also suggests that this increase may be partly explained by the rising number of Americans who are uninsured.

Table 7 also shows that the Medicare share of spending dropped from 1985 to 1986 and then again to 1987, the first such decreases since the early 1970s. HCFA attributed this decline to the relatively low growth in Medicare payments per hospital admission.

EXPENDITURES FOR PHYSICIANS' SERVICES

Personal health care expenditures for physicians' services were $102.7 billion in 1987, an increase of 11.6 percent from the previous year (see table 1). In 1987, 23.2 percent of personal health care expenditures and 20.5 percent of all national health expenditures were for physicians' services (see table 1). Physicians, however, affect personal health care expenditures more than this might indicate. Physicians have considerable discretion in determining price and volume of all medical services. It is estimated that physicians' decisions (such as ordering hospitalizations, drugs, laboratory tests) directly influence over 70 percent of all health care spending.

TABLE 7.—EXPENDITURES FOR HOSPITAL CARE, BY SOURCE OF FUNDS, 1980, 1985, 1986, AND 1987

[Amounts in billions]

Source of payment	1980		1985		1986		1987	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total	$101.6	100.0	$167.2	100.0	$179.6	100.0	$194.7	100.0
Direct payments	7.9	7.8	14.5	8.7	16.8	9.4	18.5	9.5
Third-party payments	93.7	92.2	152.7	91.3	162.8	90.6	176.2	90.5
Private health insurance	38.7	38.1	60.5	36.2	64.9	36.1	71.9	36.9
Philanthropy and industrial inplant	1.1	1.1	2.0	1.2	2.2	1.2	2.2	1.1
Government	53.9	53.1	90.2	54.0	95.7	53.3	102.2	52.5
Federal	41.1	40.4	72.0	43.1	76.5	42.6	80.0	41.1
Medicare [1]	25.9	25.5	48.9	29.2	51.7	28.8	53.3	27.4
Medicaid [2]	9.6	9.4	14.9	8.9	15.8	8.8	17.8	9.1
State and local	12.8	12.6	18.3	10.9	19.2	10.7	22.2	11.4

[1] Subset of Federal funds.

[2] Subset of Federal, State and local funds.

Source: Office of the Actuary, Office of National Cost Estimates, Health Care Financing Administration: "National Health Expenditures, 1986–2000," Health Care Financing Review, Summer 1987, p. 30; Department of Health and Human Services. "HHS News," Nov. 18, 1988.

Third-party (public expenditures and private insurance) payments financed a large majority of physicians' services. In 1987, private health insurance paid $44.6 billion (43.4 percent) for such services. The remainder was split between direct patient payments and public expenditures. Patients or their families paid $26.3 billion (25.6 percent) for physicians' services. Public programs paid $31.8 billion (30.9 percent) for such services, of which $22.3 billion (21.7 percent) was composed of Federal Medicare payments (see table 8).

Inflation was a major cause of growth in spending for physicians' services. Physicians' fees have risen more rapidly (7.3 percent in 1987) than prices in the economy as a whole (3.7 percent) as measured by the Consumer Price Index (CPI) (see table 9).

An analysis done by the Health Care Financing Administration found that expenditures for physicians' services over a 10-year span increased from $21.2 billion in 1974 to $75.4 billion in 1984, an annual growth rate of about 13.5 percent. Of this 10-year expenditure growth, increases in overall inflation accounted for 52.8 percent, increases in the medical care price increases in excess of general price inflation accounted for 19.7 percent, and increased intensity per visit for 27.5 percent. A change in the number of visits per person had the effect of decreasing the growth in physician expenditures by 7.5 percent.

According to the Health Care Financing Administration, if the change in physician expenditures is examined just for the period 1985–1986, the factors accounting for the growth look very different. Increases in overall inflation accounted for 25.3 percent, increases in medical care prices in excess of general inflation accounted for 41.1 percent, and increased intensity per visit accounted for 22.4 percent. A change in the number of visits per person had the effect of increasing the growth in physician expenditures by 2.8 percent, while changes in the population accounted for 8.4 percent.

The average 1987 net income after expenses but before taxes for physicians was $132,300, a 10.7 percent increase over the previous year (see table 10). Obstetricians and gynecologists experienced the highest growth in average net income, 20 percent. Surgeons led all specialty groups with an average net income of $188,000. In contrast, the net income of pediatricians rose by 4.2 percent. By region, average net income growth rates varied greatly, ranging from 3.3 percent in New England to 15.7 percent in the Mountain region. Physicians in the East South Central and West South Central regions had the highest average net incomes ($141,200 and $140,400 respectively). Physicians in New England had the lowest average net income ($110,600). The growth rates between rural and urban areas varied between 9.5 percent in non-metropolitan areas and 12.8 percent in metropolitan areas with less than 1 million population and 8.9 percent in metropolitan areas with more than 1 million population. The average net income of self-employed physicians ($146,200) continued to be higher than the average net income of employee physicians ($99,600).

Table 11 shows average physician net incomes in nominal and real dollars, where real income is expressed in 1987 dollars. Physicians' average net income increased about 120 percent between 1977 and 1987. However, average real incomes (adjusted for inflation) increased about 17 percent, or at an annualized rate of 1.5 percent.

Table 12 shows physicians' average net incomes by specialty. From 1977 to 1987, nominal net income increased in all specialties. Surgeons, radiologists, anesthesiologists, obstetricians/gynecologists, internists and psychiatrists also experienced an increase in real income during this period. Real net income declined among physicians in general/family practice and pediatrics.

Table 13 shows the distribution of physicians' net income in 1987 for all physicians and for selected specialties. While the average income of all physicians was $132,300, half of all physicians earned less than $108,000. One-fourth of all physicians earned less than $74,000, whereas one-fourth earned more than $163,000. Average net income was higher than median income for all specialties. Radiologists had the highest median incomes, with half of all radiologists earning more than $170,000.[1]

The continuing survey of physicians' income conduced by Medical Economics showed that the typical office-based physician received 77 percent of his 1986 gross practice income from third parties (see table 14). This is up from about 67 percent as reported in the 1981 survey. On the average, 20 percent came from commercial insurers, 17 percent from Blue Shield, 24 percent from Medicare, 7 percent from Medicaid, 7 percent from health maintenance organizations (HMOs) and independent practice associations (IPAs), and 2 percent from preferred provider organizations (PPOs). As table 14 shows the importance of each source of payment varied by specialty, with thoracic surgeons, on average, receiving the highest percent of gross pay from Medicare (43 percent), while pediatricians on average only received about 2 percent of their gross income from Medicare. Comparing the 1986 survey results with those from 1981, Medicare has increased in importance (rising from 17 to 24 percent) for all physicians, while commercial plans, Blue Shield and Medicaid have declined in importance. Commercial plans dropped from 21 to 20 percent, Blue Shield declined from 20 to 17 percent, and Medicaid dropped from 8 to 7 percent. Emerging as an important source of payment are HMOs, IPAs, and PPOs, accounting for a total of 9 percent of physicians' gross wages in 1986. PPOs were not a factor in 1981, representing on average less than 1 percent of all physicians' gross income, while HMOs and IPAs increased from 3 to 7 percent.

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[1] Gonzalez, Martin L. and David W. Emmons, eds. Socioeconomic Characteristics of Medical Practice, 1988. Chicago, AMA Center for Health Policy Research, p. 14-15.

TABLE 8.—PERSONAL HEALTH CARE EXPENDITURES FOR PHYSICIAN SERVICES [1] BY SELECTED THIRD-PARTY PAYERS: CALENDAR YEARS 1983–1987

[Amounts in billions of dollars]

Source of payment	1983		1984		1985		1986		1987	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total	$68.4	100.0	$75.4	100.0	$82.8	100.0	$92.0	100.0	$102.7	100.0
Direct payments	18.9	27.7	21.0	27.8	23.0	27.8	26.2	28.5	26.3	25.6
Third-party payments	49.5	72.3	54.4	72.2	59.7	72.2	64.9	71.5	76.4	74.4
Private health insurance	30.1	44.0	33.5	44.4	35.5	42.9	38.7	42.1	44.6	43.4
Philanthropy and industrial inplant	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Government	19.3	28.3	20.9	27.8	24.2	29.3	27.1	29.4	31.8	30.9
Federal	15.6	22.8	16.9	22.4	19.7	23.8	22.0	24.0	25.7	25.1
Medicare [3]	13.4	19.5	14.6	19.3	16.9	20.5	19.0	20.6	22.3	21.7
Medicaid [4]	1.6	2.3	1.7	2.2	2.0	2.4	2.3	2.5	2.4	2.4
Other	.6	.9	.7	.9	.7	.9	.8	.9	1.0	1.0
State and local	3.8	5.5	4.1	5.3	4.5	5.5	5.0	5.5	6.1	5.9
Medicaid [4]	1.3	2.0	1.4	1.8	1.6	1.9	1.7	1.8	2.0	2.0
Other	2.4	3.5	2.6	3.5	3.0	3.6	3.3	3.6	4.1	3.9

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[1] Encompasses the cost of all services and supplies provided in physicians' offices, the cost for services of private practitioners in hospitals and other institutions, and the cost of diagnostic work performed in independent clinical laboratories. The salaries of staff physicians are counted with expenditures for the services of the employing institution.

[2] Less than $50 million.

[3] Represents total expenditures from funds for benefits. Trust fund income includes premium payments paid by or on behalf of enrollees.

[4] Includes funds paid into Medicare trust funds by States under "buy-in" agreements to cover premiums for public assistance recipients and for persons who are medically indigent.

Source: Office of the Actuary, Office of National Cost Estimates, Health Care Financing Administration: "National Health Expenditures, 1986–2000," Health Care Financing Review, Summer 1987, p. 31. Department of Health and Human Services, "HHS News" Nov. 18, 1988.

TABLE 9.—ANNUALIZED RATES OF CHANGE IN THE CONSUMER PRICE INDEX (CPI–U),[1] 1965–87

	CPI all items	CPI, all items less medical care	Medical care total	Physicians' services
1965	1.7	1.5	2.5	3.6
1966	2.9	3.0	4.4	5.8
1967	2.9	2.4	7.1	7.1
1968	4.2	4.1	6.1	5.6
1969	5.4	5.4	6.9	6.9
1970	5.9	5.8	6.3	7.5
1971	4.3	4.1	6.5	6.9
1972	3.3	3.3	3.2	3.1
1973	6.2	6.4	3.9	3.3
1974	11.0	11.1	9.3	9.2
1975	9.1	8.9	12.0	12.3
1976	5.8	5.5	9.5	11.3
1977	6.5	6.2	9.6	9.3
1978	7.7	7.6	8.4	8.3
1979	11.3	11.4	9.3	9.2
1980	13.5	13.6	10.9	10.6
1981	10.4	10.3	10.8	11.0
1982	6.1	5.9	11.6	9.4
1983	3.2	2.9	8.7	7.7
1984	4.3	4.1	6.2	7.0
1985	3.8	3.6	6.7	6.9
1986	1.9	1.5	7.5	7.2
1987	3.7	3.5	6.6	7.3

[1] CPI index for all urban consumers, unadjusted figures.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index.

TABLE 10.—PHYSICIANS' AVERAGE NET INCOME AFTER EXPENSES BUT BEFORE TAXES, SURVEY RESULTS, 1983–1987

	Average net income [1] (in thousands)					Percent change 1986–87
	1983	1984	1985	1986	1987	
All physicians [2]	$106.3	$108.4	$113.2	$119.5	132.3	10.7
Specialty:						
General/family practice	68.5	71.1	77.9	80.3	91.5	13.9
Internal medicine	93.3	103.2	101.0	109.4	121.8	11.3
Surgery	145.5	151.8	155.4	162.4	187.9	15.7
Pediatrics	70.7	74.5	77.1	81.8	85.3	4.2
Obstetrics/gynecology	119.9	116.2	122.7	135.9	163.2	20.0
Radiology	148.0	139.8	150.8	168.8	180.7	7.0
Psychiatry	80.0	85.5	88.6	91.5	102.7	12.2
Anesthesiology	144.7	145.4	140.2	150.2	163.1	12.9
Census Division:						
New England	84.5	87.3	108.3	107.1	110.6	3.3
Middle Atlantic	98.6	98.4	107.9	114.6	126.1	10.0
East North Central	114.3	109.4	118.9	126.6	137.6	8.7
West North Central	110.5	110.7	113.7	120.7	133.9	10.9
South Atlantic	106.7	114.5	112.6	119.6	133.8	11.9
East South Central	114.9	122.2	115.0	122.6	141.2	15.2
West South Central	124.4	119.1	123.3	129.0	140.4	8.8
Mountain	91.4	102.3	97.5	108.5	125.5	15.7
Pacific	103.1	109.4	113.6	119.0	135.4	13.8
Location:						
Nonmetropolitan	87.2	90.9	94.2	107.7	117.9	9.5
Metropolitan:						
Less than 1,000,000	111.0	115.1	118.1	124.5	140.4	12.8
1,000,000 and over	106.3	106.4	112.8	117.5	127.9	8.9
Employment Status:						
Self-employed	115.9	118.6	124.5	131.1	146.2	11.5
Employee	77.6	80.4	83.8	91.7	99.6	8.6

[1] Average net income after expenses but before taxes. These figures include contributions made into pension, profit-sharing, and deferred compensation plans.

[2] Includes physicians in specialties not reported separately.

Source: Socioeconomic Characteristics of Medical Practice, 1987 and 1988, American Medical Association.

TABLE 11.—AVERAGE PHYSICIAN NET INCOME AFTER EXPENSES, BEFORE TAXES, 1977–1987

	Nominal dollars	Real (1987 dollars)
Year:		
1977	$60.4	$113.2
1978	64.6	112.6
1979	77.4	121.1
1980	NA	NA
1981	89.9	112.4
1982	97.7	115.0
1983	104.1	118.7
1984	108.4	118.5
1985	112.2	118.5
1986	119.5	123.9
1987	132.3	132.3

Note: No data for 1980. Real (1987 dollars) incomes are calculated using the consumer price indices for all urban consumers.

Source: CRS analysis of data from: Gonzalez, Martin L. and David W. Emmons, eds., Socioeconomic Characteristics of Medical Practice, 1988, Chicago, AMA Center for Health Policy Research, 1988, p. 13.

TABLE 12.—CHANGES IN AVERAGE PHYSICIAN NET INCOME (IN THOUSANDS OF DOLLARS) AFTER EXPENSES, BEFORE TAXES, 1977 TO 1987

	Average net income			Annual percent change	
	1977 nominal	1977 real	1987	Nominal	Real
All physicians [1]	$60.4	$113.2	$132.3	8.2	1.5
Specialty:					
General/family practice	49.8	93.4	91.5	6.3	−0.3
Internal medicine	60.3	113.0	121.8	7.3	0.7
Surgery	71.8	134.6	187.9	10.1	3.3
Pediatrics	45.9	86.0	85.3	6.4	−0.6
Obstetrics/gynecology	69.7	130.7	163.2	8.9	2.2
Radiology	74.9	140.4	180.7	9.2	2.5
Psychiatry	47.5	89.0	102.7	8.0	1.4
Anesthesiology	65.9	123.5	163.1	9.5	2.8

[1] Includes physicians in specialties not listed separately.

Source: CRS analysis of data from: Gonzalez, Martin L. and David W. Emmons, eds., Socioeconomic Characteristics of Medical Practice, 1988. Chicago, AMA Center for Health Policy Research, 1988, p. 14.

TABLE 13.—DISTRIBUTION OF PHYSICIAN NET INCOME (IN THOUSANDS OF DOLLARS) AFTER EXPENSES BEFORE TAXES, 1987

	Mean	25th percentile	50th percentile	75th percentile
All physicians [1]	$132.3	$74.0	$108.0	$163.0
Specialty:				
General/family practice	91.5	58.0	80.0	110.0
Internal medicine	121.8	70.0	100.0	146.0
Surgery	187.9	102.0	153.0	230.0
Pediatrics	85.3	55.0	77.0	110.0
Obstetrics/gynecology	163.2	100.0	145.0	195.0
Radiology	180.7	110.0	170.0	225.0
Psychiatry	102.7	73.0	90.0	116.0
Anesthesiology	163.1	115.0	150.0	200.0

[1] Includes physicians in specialties not listed separately.

Source: Gonzalez, Martin L. and David W. Emmons, eds., Socioeconomic Characteristics and Medical Practice, 1988. Chicago, AMA Center for Health Policy Research, 1988, table 2, p. 15.

TABLE 14.—THIRD PARTY SOURCES OF PHYSICIAN PAYMENT FOR SELECTED SPECIALTIES, 1986

Specialty	Commercial plans		Blue Shield		Medicare		Medicaid		HMOs/IPAs		PPOs	
	Average annual payment	As percent of gross practice income	Average annual payment	As percent of gross practice income	Average annual payment	As percent of gross practice income	Average annual payment	As percent of gross practice income	Average annual payment	As percent of gross practice income	Average annual payment	As percent of gross practice income
Family practice	23,990	17	17,770	13	27,690	21	10,170	8	11,510	9	2,910	2
General practice	16,560	15	13,350	15	23,090	22	10,550	10	6,760	6	1,940	2
General surgeons	41,700	21	37,900	21	60,770	33	14,460	9	10,880	5	3,230	2
Pediatricians	21,360	15	15,860	12	1,620	2	13,270	11	13,000	9	4,330	3
Plastic surgeons	71,880	26	46,640	17	27,610	10	8,800	4	11,490	4	7,400	2
Psychiatrists	29,260	21	20,420	17	8,280	8	6,440	6	6,700	5	3,630	3
Internists	22,550	15	21,680	15	49,780	37	7,100	6	8,390	7	2,270	2
Neurosurgeons	95,440	33	51,800	21	57,440	22	16,130	7	13,270	5	5,250	2
OBG specialists	70,730	32	47,780	23	8,670	4	15,150	9	17,320	9	10,030	4
Opthalmologists	23,830	10	30,670	12	123,730	42	10,590	5	10,470	5	4,780	2
Orthopedists	82,650	29	56,690	20	62,990	23	14,010	6	13,920	5	5,440	2
Radiologists	33,290	18	37,440	22	51,270	29	15,080	10	12,220	7	4,000	2
Thoracic surgeons	43,460	18	50,560	21	98,640	43	16,570	7	11,110	5	3,080	1
All surgical specialists	55,400	24	43,340	19	58,000	25	13,390	7	12,970	6	6,350	3
All non-surgical specialists	28,970	18	24,870	17	38,990	24	9,730	7	10,210	7	3,790	2
All M.D.s	37,270	20	29,740	17	43,220	24	11,160	7	10,980	7	4,500	2

Source: Paxton, Harry T. "How Much Cheer Do Third Parties Bring You?" Medical Economics, Dec. 21, 1987, pp. 118–119.

SUPPLY OF HOSPITAL BEDS AND PHYSICIANS

The national supply of community hospital beds per 1,000 population steadily increased from the 1940's, reaching a peak of 4.6 beds per 1,000 population in 1975. By 1985, the number of beds had dropped to 4.2 per 1,000 population. Similar trends can be seen in the nine census regions, except for New England, which has seen a reduction since 1940 from 4.4 beds to 4.0 beds per 1,000 population in 1985, and the Pacific region, where the reduction has been from 4.1 beds in 1940 to 3.2 beds in 1985. The area experiencing the largest increase has been the East South Central, where beds increased from 1.7 per 1,000 population in 1940 to 5.1 in 1980, falling back to 5.0 in 1985. (see table 15).

TABLE 15.—HOSPITAL BEDS PER 1,000 POPULATION,[1] ACCORDING TO GEOGRAPHIC DIVISION: UNITED STATES, SELECTED YEARS 1940–85

[Data are based on reporting by facilities]

Geographic division	Year						
	1940 [2]	1950 [2]	1960 [3]	1970	1975	1980	1985
United States	3.2	3.3	3.6	4.3	4.6	4.5	4.2
New England	4.4	4.2	3.9	4.1	4.2	4.1	4.0
Middle Atlantic	3.9	3.8	4.0	4.4	4.6	4.6	4.4
East North Central	3.2	3.2	3.6	4.4	4.7	4.7	4.5
West North Central	3.1	3.7	4.3	5.7	5.8	5.8	5.4
South Atlantic	2.5	2.8	3.3	4.0	4.3	4.5	4.1
East South Central	1.7	2.1	3.0	4.4	4.9	5.1	5.0
West South Central	2.1	2.7	3.3	4.3	4.7	4.7	4.2
Mountain	3.6	3.8	3.5	4.3	4.0	3.8	3.5
Pacific	4.1	3.2	3.1	3.7	3.9	3.5	3.2

[1] Civilian population.

[2] 1940 and 1950 data are estimated based on published figures.

[3] 1960 includes hospital units of institutions.

Note: Hospitals include all non-Federal short-stay hospitals classified by the American Hospital Association according to one of the following services: general medical and surgical; obstetrics and gynecology; eye, ear, nose, and throat, rehabilitation; orthopedic; other specialty; children's general; children's eye, ear, nose, and throat; children's rehabilitation; children's orthopedic; and children's other specialty.

Source: Health, United States, 1987. U.S. Department of Health and Human Services. DHHS Publication No. (PHS) 88–1232, Table 87, pp. 138–139.

The number of active physicians in the country has increased from 279,212 in 1970 to 552,716 in 1985. This growth rate exceeded the rate at which the population of the Nation grew during the decade.

As table 16 below indicates, the ratio of physicians-to-population increased from 137 physicians per 100,000 population in 1970 to 225 physicians per 100,000 population in 1986. This table also indicates variations in the supply of physicians relative to population by State. In 1986, the District of Columbia had the highest ratio (617 physicians per 100,000 population) while Mississippi had the lowest ratio (131 physicians per 100,000 population).

TABLE 16.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilian population]

Geographic area	1970	1975 [1]	1986	1986 rank
United States [2]	137	156	225	....
Alabama	84	100	157	43
Alaska	65	92	142	48
Arizona	123	151	222	15
Arkansas	85	95	155	44
California	175	196	267	7
Colorado	163	172	218	18
Connecticut	178	207	310	5
Delaware	124	138	205	21
District of Columbia	365	436	617	1
Florida	124	155	241	11
Georgia	100	119	174	36
Hawaii	138	160	250	9
Idaho	87	95	135	50
Illinois	130	156	222	15
Indiana	96	109	159	41
Iowa	97	105	154	45
Kansas	108	128	183	32
Kentucky	96	117	167	39
Louisiana	114	127	189	28
Maine	98	122	198	23
Maryland	171	206	340	2
Massachusetts	194	222	340	2
Michigan	117	135	192	27
Minnesota	142	162	226	14
Mississippi	78	87	131	51
Missouri	120	141	198	23
Montana	97	111	162	42
Nebraska	106	124	174	37
Nevada	102	117	176	34
New Hampshire	125	146	210	20
New Jersey	136	162	249	10
New Mexico	103	121	187	31
New York	223	235	326	4
North Carolina	103	124	189	28
North Dakota	88	104	170	38
Ohio	125	137	202	22
Oklahoma	94	108	153	46
Oregon	133	160	218	18
Pennsylvania	143	158	240	12
Rhode Island	143	175	257	8

TABLE 16.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE—Continued

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilian population]

Geographic area	1970	1975 [1]	1986	1986 rank
South Carolina	85	106	167	39
South Dakota	76	83	143	47
Tennessee	113	134	194	25
Texas	109	129	177	33
Utah	129	150	189	28
Vermont	169	189	272	6
Virginia	113	136	219	17
Washington	136	154	229	13
West Virginia	98	120	176	34
Wisconsin	113	129	193	26
Wyoming	91	100	140	49

[1] Numbers of active non-Federal physicians are adjusted for 1975 to include about 90 percent of those not classified as to status or activity by the American Medical Association.

[2] Excludes counts of physicians in U.S. possessions and with unknown addresses.

Source: American Medical Association, Physician Characteristics and Distribution in the United States 1987 edition. Table A-9, p. 34.

The number of physicians in the United States is expected to continue to grow at a faster rate than the general population. The Department of Health and Human Services estimated that there were 221 active physicians per 100,000 population in 1985. They project ratios of 238 in 1990, 252 in 1995, and 264 in 2000.

HEALTH INSURANCE COVERAGE OF THE NONAGED POPULATION [2]

HEALTH INSURANCE STATUS IN 1986

Most people have some form of health insurance. In 1986, an estimated 84.4 percent of the total population and 82.5 percent of the nonaged (under age 65) population had coverage (see table 17). However, 36.8 million nonaged Americans (17.5 percent of the nonaged population) lacked health insurance in 1986.

TABLE 17.—TOTAL U.S. POPULATION BY INSURANCE STATUS, 1986

	Total population	Number insured (in millions)	Number uninsured (in millions)	Percent uninsured
Total population	238.6	201.5	37.1	15.6
Nonaged population	210.6	173.8	36.8	17.5

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[2] This section draws directly from: U.S. Library of Congress. Congressional Research Service. Health Insurance and the Uninsured: Background Data and Analysis. The Health Insurance Team. CRS Report for Congress June 9, 1988, 88-537 EPW.

Source: Table prepared by the Congressional Research Service (CRS) based on data from March 1987 Current Population Survey (CPS).

This information is based on an analysis of the March 1987 Current Population Survey (CPS), a household survey conducted by the Census Bureau of the Department of Commerce. The March 1987 CPS collected information on health insurance coverage for 1986; it asked whether persons had coverage from selected sources of health insurance at any time during January 1986.[3] Estimates for 1987 indicate that the number of uninsured nonaged Americans is closer to 35 million. This is not necessarily because of increasing coverage, but rather because the March 1988 CPS questionnaire was designed differently. Thus, the figures from 1987 and 1986 are not directly comparable (see table 18). Unless otherwise specified, the estimates provided in the remainder of this appendix are drawn from the March 1987 CPS.

TABLE 18.—NONELDERLY POPULATION WITHOUT HEALTH INSURANCE 1980–88

Year	Nonelderly population in millions	Nonelderly uninsured in millions	Percent uninsured
1980	199.0	29.6	14.9
1981	200.6	NA	NA
1982	202.1	30.7	15.2
1983	203.9	32.7	16.0
1984	205.6	35.0	17.0
1985	207.2	36.8	17.8
1986	209.4	36.9	17.6
1987	211.0	37.1	17.6
1988	212.6	35.0	16.5

NA: Not available.

Note: The March 1988 CPS survey was changed so that the 1988 estimate cannot be compared with the 1987 estimate.

Source: Congressional Budget Office Tabulations of Current Population Surveys, March 1980–March 1988.

SOURCES OF HEALTH INSURANCE COVERAGE AMONG THE NONAGED

For the nonaged population, health insurance offered on a job is the single most important source of health insurance coverage. In 1986, employment-based plans covered about two-thirds of the nonaged population, including both workers and their eligible dependents. Table 19 shows the source of health insurance coverage among the nonaged population. Some individuals had coverage from more than one source during 1986, so the total coverage rate is lower than the sum of the coverage rates from individual sources.

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[3] Household surveys are subject to reporting errors by survey respondents. The March CPS requires respondents to recall information from January of the previous year. The lengthy recall period is likely to introduce reporting errors. Some analysis have suggested that answers to the health insurance questions could represent coverage at the time of the survey rather than coverage during the previous year. The Congressional Budget Office, for example, reports the March 1987 CPS results as estimates of insurance status for 1987.

About half of those who lacked employment-based health insurance had coverage from other sources. In addition to employer-based coverage, health insurance coverage was obtained from Government programs (Medicare, Medicaid, and military plans) and from private purchases of insurance.

TABLE 19.—SOURCES OF HEALTH INSURANCE COVERAGE FOR THE NONAGED POPULATION: 1986

Source of coverage	Number covered (millions)	Percent covered
Total (all health insurance plans)	173.7	82.5
Employment-based health insurance [1]	136.5	64.8
Medicare	2.7	1.3
Medicare	17.0	8.1
CHAMPUS	8.9	4.2
Other health insurance	23.9	11.4

[1] Employment-based health insurance is insurance coverage of workers and their dependents obtained by workers on a job in 1986. It does not include employer-provided retiree health insurance, which is included as "other" health insurance.

Note.—Coverage rates from individual sources do not add to the total coverage rate because some people were covered by more than one type of health insurance plan during 1986.

Source: Table prepared by the CBS based on data from the March 1987 CPS.

CHARACTERISTICS OF WORKERS WITHOUT HEALTH INSURANCE

Of the 126.7 million people who worked in 1986,[4] an estimated 57 percent (72 million) were included in an employment-based health insurance plan on their job.[5] This percentage does not include workers who were covered by a plan through another family member—that is, spouses or dependents. It represents only coverage earned by workers through their own employment. Thus, 55 million people (or 43 percent of those who had at least some work experience in 1986) did not obtain employment-based health insurance through their own work. Note that of the 55 million workers who did not obtain coverage from their own jobs, 21 million, almost 4 out of 10 such workers, had employment-based coverage through another family member.

Among the important factors associated with exclusion from a health plan on their job is a worker's degree of attachment to the labor force, age and earnings. The weaker the attachment to the labor force (fewer hours or weeks of work) the less likely a worker will be included in a health plan on the job (see table 20). Generally, the younger the worker, the less likely that the worker will be included in a health plan on the job (see table 21). Workers with low earnings were much less likely to be included in a health plan on their job than those with higher earnings (see table 22). These three factors are interrelated. For example, young workers tend to have a weaker attachment to the labor force and lower earnings than older workers and thus are less likely than older workers to obtain health insurance on the job.

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[4] This figure represents all those who reported some work in 1986, including aged workers and teenagers.

[5] The CPS data do not differentiate between workers who were in jobs where employers did not offer health insurance and workers who refused health insurance offered to them by employers.

TABLE 20.—PERCENT OF WORKERS NOT OBTAINING HEALTH INSURANCE FROM THEIR OWN JOBS: FULL- AND PART-TIME AND FULL- AND PART-YEAR WORKERS: 1986

	Percent
Full-year, full-time workers	24.4
Full-year, part-time workers	75.1
Part-year, full-time workers	55.1
Part-year, part-time workers	88.7

Note: Full-time workers represent those who worked 35 hours per week or more during the majority of weeks they worked during the year. Full-year workers are those who worked in civilian jobs for 50 weeks or more during the year.

Source: Table prepared by CRS based on data from March 1987 CPS.

TABLE 21.—PERCENT OF WORKERS NOT OBTAINING HEALTH INSURANCE FROM THEIR OWN JOBS, BY AGE, 1986

	Percent
Age of worker:	
Less than 18	97.9
18 to 21	75.7
22 to 24	49.8
25 to 29	37.0
30 to 39	34.5
40 to 54	34.5
55 to 61	36.0
62 to 64	40.2
65 and older	67.6

Source: Table prepared by CRS based on data from the March 1987 CPS.

TABLE 22.—PERCENT OF WORKERS NOT OBTAINING HEALTH INSURANCE FROM THEIR OWN JOBS, BY WORKERS' EARNINGS: 1986

	Percent not covered
Worker's earnings:	
Less than $5,000	88.6
$5,000 to $9,999	62.2
$10,000 to $14,999	36.5
$15,000 to $19,999	22.7
$20,000 to $24,999	18.2
$25,000 to $29,999	14.8

TABLE 22.—PERCENT OF WORKERS NOT OBTAINING HEALTH INSURANCE FROM THEIR OWN JOBS, BY WORKERS' EARNINGS: 1986—Continued

	Percent not covered
$30,000 to $49,999	12.3
$50,000 or more	15.2

Source: Data prepared by CRS based on data from the March 1987 CPS.

In addition, workers in the goods-producing sector of the economy are more likely than workers in the service-producing sector to obtain health insurance on a job, though coverage rates vary significantly among industries within the service-producing sector. Firm size also helps determine whether workers obtain health insurance: large companies are much more likely to provide coverage than small ones (see tables 23 and 24).

TABLE 23.—PERCENT OF WORKERS NOT OBTAINING HEALTH INSURANCE FROM THEIR OWN JOBS BY MAJOR INDUSTRY: 1986

	Percent
Major industry:	
Agriculture, forestry, and fisheries	82.0
Personal services, including households	78.7
Entertainment and recreation services	68.5
Retail trade	63.8
Business and repair services	56.1
Construction	52.4
Professional and related services	39.8
Finance, insurance, and real estate	33.2
Wholesale trade	31.5
Manufacturing, nondurable goods	27.0
Transportation, communications, and public utilities	23.8
Public administration	22.9
Mining	20.0
Manufacturing, durable goods	17.4

Source: Table prepared by CRS based on data from the March 1987 CPS.

TABLE 24.—WORKERS NOT OBTAINING HEALTH INSURANCE FROM THEIR OWN JOBS BY FIRM SIZE, MAY 1983

	Percent
Firm size:	
Under 25 employees	62.7
25 to 99	34.0
100 to 499	25.2

TABLE 24.—WORKERS NOT OBTAINING HEALTH INSURANCE FROM THEIR OWN JOBS BY FIRM SIZE, MAY 1983—Continued

	Percent
500 to 999	20.5
1,000 or more	14.6

Source: Employee Benefit Research Institute. A Profile of the Nonelderly Population Without Health Insurance. EBRI Issue Brief No. 66, May 1987. p. 5

CHARACTERISTICS OF THE NONAGED UNINSURED

This section presents a series of tables which profile the 36.8 million nonaged persons who lacked health insurance coverage in 1986.

Poverty Status.—Most of the uninsured are not poor.[6] In 1986, about 7 out of 10 uninsured persons lived in families with incomes exceeding the Federal poverty threshold for their family size. In interpreting health insurance coverage by poverty status, it is important to note that the Federal Government measures poverty by family rather than by individual income.

Table 25 shows the uninsured by poverty ratio. A person's poverty ratio represents their total family income divided by their family's poverty threshold. Therefore, a poverty ratio of one represents income at the poverty line; the uninsured with a poverty ratio of less than 1.0 are poor, while those with a poverty ratio of 1.0 or more represent the uninsured who are not poor. In 1986, about 30 percent of the uninsured were poor, another 30 percent had a poverty ratio between 1.0 and 1.99, and the remaining 40 percent had poverty ratios of 2.0 or higher.

TABLE 25.—NONAGED POPULATION NOT COVERED BY HEALTH INSURANCE, BY POVERTY RATIO: 1986

	Percent
Poverty ratio:	
Less than .50	12.7
.50 to .99	16.4
1.00 to 1.49	16.9
1.50 to 1.99	12.9
2.00 to 2.99	17.0
3.00 and more	24.0
Total	100.0

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[6] Persons in families with incomes below poverty thresholds established by the Census Bureau are counted as poor. The 1986 Federal poverty thresholds are as follows: $5,572 for a single person, 15 to 64 years old; $7,372 for a family of two (householder age 15 to 64; $8,737 for a family of three; $11,203 for a family of four; $13,259 for a family of five; and higher levels for larger families. Source: U.S. Bureau of the Census. Money Income and Poverty Status of Families and Persons in the United States: 1986. Current Population Reports, Series P-60, No. 157. Washington, 1987. p. 38.

Source: Table based on CRS analysis of data from the March 1987 CPS.

Table 26 shows how many of the uninsured have ties to the labor force. In this table, the uninsured are divided into two groups: (a) those likely to be covered by a family plan (people in "families"), and (b) those who generally must earn health insurance on their own (others). In 1986, there were 21.8 million people in the first group, of which 56 percent were in families where either the family head or spouse worked full-time/full-year, and another 38 percent were in families where either the head or the spouse worked less than full-time/full-year. There were 15 million uninsured in the second group. Not only were these persons unlikely to be covered by a family plan, but the nature of their labor force attachment made many of these persons unlikely to be enrolled in health insurance through their own employment. About 21 percent of these persons reported that they did not work at all during 1986; another 57 percent reported that they worked less than full-time/full-year, and 22 percent worked full-time/full-year.

For persons without private health insurance, government programs provide coverage to some persons based on either their past work, past or current military service, or membership in certain types of needy families. For the non-aged, Medicare is restricted to persons who received social security disability benefits (and is available only after a 24-month waiting period) and persons with end stage renal disease. Veterans' Administration medical care is provided only to certain veterans and their dependents. Medicaid, the major needs-tested program, is available only to needy adults who are aged, blind, and disabled or to persons who are in (mainly) poor families with children.

Medicaid's categorical eligibility rules affect the composition of the uninsured. For families with children, Medicaid is available to single-parent families with children who meet State-determined tests of financial need, and sometimes (at State option) to married couple families with children who have an unemployed parent and meet a needs test. States also may cover children in poor families, even when both parents are present and working, but may not cover the adults in these families. For families with children, however, the bulk of the beneficiaries are persons in single-parent families with children, usually female-headed families.

Looking at the uninsured by family type, divided into people in families with related children under age 18, and others (which includes unrelated children, older children, and members of extended families) is useful. The latter group is generally considered to be outside the family for Medicaid purposes, and represents 58.2 percent of the nonaged uninsured. Among the uninsured who were in families with related children, the largest group is families headed by a married couple, a group not eligible for Medicaid in many States. People in married-couple families represent 29 percent of the non-aged uninsured.

TABLE 26.—NONAGED POPULATION WITHOUT HEALTH INSURANCE BY LABOR FORCE TIES AND FAMILY STATUS, 1986

	Number/ percent
People in families [1] (millions)	21.8
Neither family head nor spouse worked in 1986 (percent)	5.7
Either family head or spouse worked full-year/full-time (percent)	56.0
Either family head or spouse worked, but less than full-year/full-time (percent)	38.4
Others [2] (millions)	15.0
Did not work in 1986 (percent)	21.4
Worked full-year/full-time (percent)	21.8
Worked less than full-year/full-time (percent)	56.7

[1] Families include family heads, spouse, and children of family heads under age 22.

[2] Other persons include single people who live alone with non-relations, or otherwise unrelated to the household head, and members of "extended" families.

Source: CRS, based on data from the March 1987 CPS.

TRENDS IN HEALTH INSURANCE COVERAGE

Between 1979 and 1986, the percent of the nonaged population who were uninsured increased from 14.6 percent to 17.5 percent. The number of uninsured would have been expected to grow from 28.4 to 30.8 million simply because the overall nonaged population grew. However, the number of nonaged uninsured actually grew from 28.4 million to 36.8 million. That is, the number of uninsured increased by 8.4 million people, yet only 2.4 million or 29 percent of the growth was due to an expanding nonaged population.

Table 27 shows trends in the nonaged uninsured for selected years from 1979 to 1986. Most of the change in health insurance coverage occurred between 1979 and 1984; after 1984, coverage rates remained fairly constant.

TABLE 27.—NUMBER AND PERCENT OF THE NONAGED POPULATION WITHOUT HEALTH INSURANCE, 1979 AND 1983 TO 1986

	1979	1983	1984	1985	1986
Number uninsured (millions)	28.4	34.8	36.8	36.7	36.8
Percent uninsured (percent)	14.6	16.9	17.7	17.6	17.5

Source: Table prepared by CRS based on data from the March 1980, March 1984, March 1985, March 1986, and March 1987 CPS. Information from 1980 to 1982 is not presented due to errors on the CPS computer tapes for those years.

To examine why the uninsured have increased since 1979, table 28 displays insurance coverage by source and year.

TABLE 28.—SOURCES OF HEALTH INSURANCE COVERAGE BY YEAR FOR NONAGED POPULATION, 1979, 1983–86

	Percentage of nonelderly population				
	1979	1983	1984	1985	1986
Employment-based plans:					
Covered on own job	33.1	32.5	32.6	33.1	33.4
Covered through someone else	34.3	32.1	31.4	31.2	31.4
Total employment-based	67.4	64.6	64.0	64.3	64.8
Other plans[1]	17.9	18.5	18.3	18.1	17.7
Uninsured	14.6	16.9	17.7	17.6	17.5
Total	100.0	100.0	100.0	100.0	100.0

[1] Excludes persons covered by employment-based plans.

Source: Table prepared by CRS based on data from the March 1980, March 1984, March 1985, March 1986, and March 1987 CPS. Information from 1980 to 1982 is not presented due to errors on the CPS computer tapes for those years.

The most dramatic trend shown in table 28 is the decline in the percent of the nonaged population covered by employment-based plans through another family member from 34.3 percent to 31.4 percent. This proportion declined consistently between 1979 and 1984, and then leveled off. On the other hand, the percent of the nonelderly population covered by health insurance from their own work actually increased between 1979 and 1986 from 33.1 to 33.4 percent. This percent declined during the early 1980s but increased by nearly a full percentage point between 1983 and 1986.

Several factors contributed to these changes in health insurance coverage over the 1979 to 1986 period. The first contributing factor is changes in the work force. From 1979 to 1986, the percent of the nonaged in the work force grew as the last of the "baby boomers" entered the work force. Moreover, the percent of workers in service-producing industries grew over the 8-year period. Second, demographic changes and changes in family structure contributed. The percent of the population under 18 (traditionally covered as dependents under parents' plans) has declined. Moreover, family structure has changed, with a great proportion of the nonaged population living outside of "traditional" family arrangements. Third, economic incentives contributed. Noncash compensation grew rapidly during the 1970s as high inflation and high tax rates made nontaxable, inflation-resistent noncash compensation such as health insurance more valuable relative to cash wages. The low inflation of the mid-1980s and the changed tax structure may have reduced the incentive for employees to favor compensation in noncash forms relative to cash forms. Also, the cost of family premiums has increased 66 percent in real terms over the past 10 years and the required enrollee share of premiums for family coverage has risen.

Data from the Census Bureau's CPS were used by CRS to examine the effect of the first two factors on health insurance coverage trends. However, census data are insufficient to measure the effect of economic incentives upon coverage rates. CRS found that the notion that the drop in coverage is mostly due to the movement of jobs to the service-producing sector is not supported by the CPS analysis. Decreases in coverage are found most significantly in coverage obtained through another family member's employment-based plan. The cause of the decrease in this type of coverage seems almost evenly attributable to demographic shifts and to a decline in coverage rates for spouses and children under age 18.

FACTORS LEADING TO LOSS OF COVERAGE

One of the drawbacks in using the Current Population Survey (CPS) to look at health insurance coverage is that it provides an estimate of the uninsured for a point in time, which may mask the extent to which people move in and out of coverage. Questions regarding duration of coverage and the reasons for loss of coverage cannot be adequately analyzed using the CPS.

A study based on the Census Bureau's Survey of Income and Program Participation (SIPP) for the period between June 1983 and March 1986 allows some insights into the dynamics of health insurance loss.[7] In this study, the nonaged population was divided into two groups: those respondents who had insurance in the first month of the survey, and those who did not have coverage in the first month. The results of the study permit a comparison of these two groups as they moved in and out of public and private sources of coverage through a period of 32 months. What is revealed is that the uninsured population is heterogeneous: it is made up of persons who lose coverage for short periods of time, persons who experience periodic spells without coverage, and those who are persistently uninsured for long periods of time. Moreover, when compared with all persons who lose coverage, the long-term uninsured are more likely to be poor or near poor and have less attachment or access (through family members) to employer-based health insurance coverage.

As seen in table 29, of the 151.6 millions persons with private insurance in the first month, 78 percent experienced no transition in health insurance status over 32 months, whereas 4.8 percent experienced one transition, and 4 percent experienced more than 3 changes. Of the 30.8 million persons who were uninsured in the first month, 27.4 percent (about 8.4 million) remained uninsured throughout the 32 month period; 28.1 percent experienced one transition, whereas 12.1 percent experienced more than 3 transitions. The study also analyzed the average duration of health insurance loss, that is, spells of months without insurance and total months without insurance. It found that persons who lost private insurance during the 32 months experienced noncoverage for an average of 8.3 months. Persons who were uninsured during the first month experienced on average a total of 20.2 months without coverage (see table 30).

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[7] Monheit, Alan and Claudia L. Schur. The Dynamics of Health Insurance Loss: A Tale of Two Cohorts. Inquiry. Fall, 1988, pp. 315-327. Because of differences in the survey instruments and in the methods used to analyze the survey, the SIPP and CPS estimates for the insured and uninsured population are different. For example, whereas the CRS estimate using CPS for the total nonaged uninsured population in 1984 was 36.8 million (17.7 percent), the Monheit and Schur estimate using SIPP was 30.8 million (15.5 percent).

TABLE 29.—TRANSITIONS IN HEALTH INSURANCE STATUS OVER 32 MONTHS: NUMBER OF CHANGES AMONG PRIVATE, PUBLIC, AND NO INSURANCE COVERAGE

	Percent distribution	
	Persons with private insurance, first SIPP reference month (n=151,649,000)	Persons uninsured, first SIPP reference month (n=30,755,000)
Number of transitions:		
0	78.0	27.4
1	4.8	28.1
2	10.4	17.2
3	2.8	15.2
More than 3	4.0	12.1

Source: 1984 Panel of Survey of Income and Program Participation: NCHSR Longitudinal 32-Month File. See Monheit and Schur, 1988, p. 318, table 1.

TABLE 30.—DURATION OF HEALTH INSURANCE LOSS: TOTAL MONTHS UNINSURED

	Number (in thousands)	Average total months	Percent distribution by total months without coverage					
			1–4	5–8	9–12	13–24	25–31	32
Losers of private insurance	29,778	8.3	48.6	17.7	10.9	19.1	3.7	....
Uninsured cohort	30,755	20.2	12.2	10.5	9.6	24.3	16.1	27.4

Source: 1984 Panel of Survey of Income and Program Participation: NCHSR Longitudinal 32-Month File. See Monheit and Schur, 1988, p. 324, table 7.

The study also looked at the demographic and economic characteristics of the two groups, and revealed significant differences between the two groups (see table 31). However, of particular note are the characteristics of those who were uninsured during the entire 32 months. Of these 8.4 million people, 63.8 percent were either poor or near poor. This compares to 54.4 percent of those who were uninsured in the first month but who obtained coverage for some part of the 32 months, and 12.2 percent of those who lost private coverage after the first month. Only 31.6 percent of the persistently uninsured worked full-time, compared to 36.3 percent of the uninsured who picked up coverage, and 50.1 percent of the privately insured who lost coverage.

TABLE 31.—SELECTED CHARACTERISTICS OF THE UNINSURED: COMPARISONS OF PERSONS LOSING PRIVATE COVERAGE AFTER 1ST SIPP REFERENCE MONTH, PERSONS UNINSURED DURING 1ST SIPP REFERENCE MONTH, AND PERSONS UNINSURED THROUGHOUT PANEL

[In percent]

Characteristics [1]	Persons losing private coverage: All persons (n=29,778,000)	Persons losing private coverage: Primary insured (n=11,197,000)	Persons uninsured in first month (n=30,755,000)	Persons uninsured throughout (n=8,412,000)
Age:				
Less than 18	37.7	0.7	35.3	35.6
19 to 24	20.6	23.9	19.9	15.7
25 to 44	29.6	52.6	30.1	27.3
45 to 54	6.5	11.9	6.9	10.7
55 to 64	5.6	10.9	7.7	10.7
Race/ethnicity:				
White	76.5	76.9	69.0	67.0
Black	14.8	14.4	16.6	16.5
Hispanic	6.2	5.6	10.9	14.1
Other	2.5	3.1	3.5	2.4
Education: [2]				
Elementary	7.2	8.2	15.1	22.9
High School	59.4	55.1	61.0	60.0
Some college	22.2	21.7	15.2	12.1
College graduate	11.3	15.0	8.7	5.0
Relationship to poverty level:				
Poor	12.2	10.0	37.0	44.7
Near poor	13.3	11.7	17.4	19.1
Other low	14.5	13.3	13.7	12.7
Middle income	40.4	40.4	23.8	18.1
High income	19.6	24.6	8.2	5.3
Employment status: [3]				
Full time	50.1	77.9	36.3	31.6
Part time	17.5	10.2	14.9	15.7
Unemployed	8.3	4.6	18.3	15.5
Not in labor force	24.1	7.4	30.5	37.2

[1] Based on first SIPP reference month.

[2] Does not include persons who did not attend elementary school.

[3] Does not include persons 15 years of age and under.

Source: 1984 Panel of Survey of Income and Program Participation: NCHSR Longitudinal 32-Month File. See: Monheit and Schur, 1988, p. 323, table 6.

Also compared was the insurance coverage experience of persons with employment-related coverage versus those who had coverage from some other private source (such as individual subscriber policies). Thirty-three percent of the persons with non-employment-related coverage lost coverage while 17.5 percent of those persons with employment-related coverage experienced a loss of coverage, indicating that for those without access to employment-related plans, it may be more difficult to retain insurance.

THE UNINSURED AND UNCOMPENSATED CARE

The increased number of people without health insurance has expanded the potential volume of hospital uncompensated care. At the same time, hospitals face pressures to cut costs for insured patients, making more difficult the absorption of costs for patients unable to pay.

Uncompensated care is a hospital accounting term used to describe care given to patients unable (or unwilling) to pay. In general, the term refers to the value of services rendered for which the hospital does not receive payment or receives only partial payment. Uncompensated care can include the cost of services for which no payment is expected (charity care) and for which payment is expected but not received (bad debt). Bad debts consist of charges not paid for by uninsured individuals and partial charges left unpaid by insured patients who decline to pay the out-of-pocket portion of their bills that arise from deductibles, coinsurance, expenses above a maximum plan payment, and services not covered by the plan.

An alternative measure of uncompensated care is "unsponsored care"—that is, charity care plus bad debt, less any State and local government tax appropriation received by the hospital. Unsponsored care can be expressed in dollars or as a percentage of costs. The result is the amount that the hospital has to either absorb or pass on to private-pay patients. Estimates by the American Hospital Association (AHA) for 1986 indicate that unsponsored care reached 5 percent of hospital expenses, or $6.96 billion.

Though not the same, the issues of uncompensated care and care for the uninsured are closely related. According to a study conducted at the University of Florida on hospital care for the poor, patients classified as "self-pay" or "no-charge" accounted for approximately 70 percent of Florida hospitals' unpaid charges in 1985.[8] One analyst estimated, based on a national survey of hospitals, that 68 percent of hospitals' bad debts in 1982 were due to uninsured patients.[9]

Cost data from the AHA's annual surveys of community hospitals (including private, not-for-profit, investor-owned and State and local government hospitals) indicate that the amount of unsponsored care provided by hospitals has been increasing. In 1980, hospitals provided $2.8 billion in unsponsored care, representing 3.6 percent of total costs. Between 1980 and 1986 unsponsored care costs more than doubled, amounting to $6.96 billion (or 5 percent of total costs in 1986). These amounts increased at a rate approximately 40 percent faster than the rate of health care inflation during the same period.

The burden of uncompensated care has been distributed unevenly across hospital types, with public hospitals providing a larger portion of uncompensated care in relation to total patient charges. Table 32 shows the distribution of unsponsored care by census region for 1986. Hospitals in the South Atlantic and East South Central States had the highest unsponsored care burden as a percentage of their total costs. This is consistent with data from previous years. Researchers have hypothesized that hospitals in the south have a higher burden of uncompensated care than those in the rest of the country because eligiblity for Medicaid programs in southern States has traditionally been more restrictive, and the south has a disproportionately high number of medically uninsured people.

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[8] Center for Health Policy Research. "State University of Florida Study of Indigent Care. Analytic Report," v. 2, 1986 p. 271

[9] Bizzoli, Gloria. "Heath Care for the Indigent. Overview of Critical Issues." Health Services Research, v. 21, No. 3, Aug. 1986, p. 379

TABLE 32.—HOSPITAL UNSPONSORED CARE BY REGION, 1986

	Unsponsored care as a percentage of costs
Region:	
West North Central	3.5
East North Central	3.6
Pacific	4.3
Middle Atlantic	4.4
Northeast	5.0
Mountain	5.1
West South Central	6.1
South Atlantic	6.9
East South Central	7.2

Source: AHA. Uncompensated Care and Unsponsored Care. 1986 AHA Annual Survey. Unpublished table.

Table 33 shows unsponsored care as a percentage of hospital costs by hospital bed-size for 1986. In the aggregate, the smallest hospitals provide the lowest amount of unsponsored care. The proportion of hospital expenditures on unsponsored care as a percentage of costs rises with bed-size, although the relationship becomes less clear for hospitals over 100 beds.

TABLE 33.—HOSPITAL UNSPONSORED CARE BY BED-SIZE, 1986

	Unsponsored care as a percentage of costs
Bed-size:	
6 to 24	3.0
25 to 49	4.0
50 to 99	4.8
300 to 399	4.8
200 to 299	5.0
500 and over	5.0
100 to 199	5.2
400 to 499	5.2

Source: AHA. Uncompensated Care and Unsponsored Care. 1986 AHA Annual Survey, Unpublished table.

In addition to region and bed size, other characteristics might explain differences in the amount and proportion of uncompensated or unsponsored care provided by hospitals. These characteristics include hospital ownership, teaching status, location (metropolitan/nonmetropolitan), patient demand for free or subsidized care, and the type of services provided.

INTERNATIONAL HEALTH SPENDING [10]

This section analyzes trends in health expenditures for 23 Organization for Economic Cooperation and Development (OECD) countries from 1960 to 1986. Table 34 illustrates total health expenditures as a percentage of gross domestic product (GDP). In 1960, the mean percent of GDP was 4.1 percent, with the United States being 25 percent higher than the average with 5.2 percent of GDP. By 1986, the overall mean percent of GDP comprised of health expenditures had increased to 7.3 percent while the United States health spending as a share of GDP had increased to 11.1 percent, some 52 percent greater than the overall average.

The second to the last column in table 34 presents per capita health expenditures denominated in U.S. dollars. The last column illustrates public health expenditures as a percent of total health spending. This ranged from 41 percent in the United States to over 90 percent in Greece, Luxembourg, Norway, and Sweden, with an OECD average of 77 percent.

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[10] The data and analysis in this section are from Health Affairs, "Data Watch: International Health Spending and Utilization Trends," by George J. Schieber and Jean-Pierre Poullier, Fall 1988.

TABLE 34.—TOTAL HEALTH EXPENDITURE AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP), PER CAPITA HEALTH SPENDING AND PERCENT OF HEALTH EXPENDITURES PUBLICLY FINANCED

[In percent]

	1960	1965	1970	1975	1980	1985	1986	Per capita 1986	Public 1986
Australia	4.6	4.9	5.0	5.7	6.6	6.8	6.8	877	73.0
Austria	4.6	5.0	5.4	7.3	7.9	8.2	8.0	903	66.1
Belgium	3.4	3.9	4.0	5.8	6.6	7.2	7.1	826	76.9
Canada	5.5	6.1	7.2	7.3	7.4	8.4	8.5	1,370	76.0
Denmark	3.6	4.8	6.1	6.5	6.8	6.1	6.1	800	83.9
Finland	4.2	4.9	5.6	6.2	6.3	7.3	7.5	900	77.3
France	4.2	5.2	5.6	6.7	7.4	8.4	8.5	1,039	79.2
Germany	4.7	5.1	5.5	7.8	7.9	8.2	8.1	1,031	78.1
Greece	2.9	3.1	4.0	4.0	4.2	4.2	3.9	245	94.8
Iceland	5.9	6.0	8.7	11.1	6.9	7.8	7.5	1,072	83.3
Ireland	4.0	4.4	5.6	7.7	8.5	8.0	7.9	549	87.6
Italy	3.3	4.0	4.8	5.8	6.8	6.7	6.7	764	78.0
Japan	3.0	4.5	4.6	5.6	6.6	6.6	6.7	831	72.9
Luxembourg	......	......	3.8	5.3	6.1	6.7	6.9	968	90.7
Netherlands	3.9	4.4	6.0	7.7	8.2	8.3	8.3	984	78.7
New Zealand	4.4	4.5	5.1	6.4	7.2	......	6.9	715	81.1
Norway	3.3	3.9	5.0	6.7	6.6	6.4	6.8	1,021	97.3
Portugal	......	......	......	6.4	5.9	5.6	5.6	310	71.2
Spain	2.3	2.7	4.1	5.1	5.9	6.0	6.0	486	71.5
Sweden	4.7	5.6	7.2	8.0	9.5	9.4	9.1	1,195	90.9
Switzerland	3.3	3.8	5.2	7.1	7.2	7.9	8.0	1,217	67.7
United Kingdom	3.9	4.1	4.5	5.5	5.8	6.1	6.2	711	86.2
United States	5.2	6.0	7.4	8.4	9.2	10.7	11.1	1,926	40.8
Mean	4.1	4.6	5.4	6.7	7.1	7.3	7.3	NA	78.3

Source: Measuring Health Care 1960–1983 (Paris: Organization for Economic Cooperation and Development, 1985).

APPENDIX D. MEDICARE REIMBURSEMENT TO HOSPITALS [1]

Before the passage of the Social Security Amendments of 1983 (P.L. 98-21) the Medicare program reimbursed hospitals according to the reasonable costs they incurred in providing services to Medicare beneficiaries. Because the actual reasonable costs could not be determined until after the hospital had provided the services and reported its costs to the Medicare program, this method of reimbursement was known as retrospective cost-based reimbursement.

Under authority provided by the Social Security Amendments of 1972 (P.L. 92-603), the Department of Health and Human Services (HHS) placed certain limits on inpatient routine operating costs recognized as reasonable (referred to as section 223 limits for the specific section in the law). The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248, commonly referred to as TEFRA) expanded previously existing limits to include all other inpatient hospital operating costs. Further, it established a new 3-year Medicare ceiling (or target rate) on the allowable annual rate of increase in operating costs per case for inpatient hospital services. TEFRA also required that HHS develop proposals for the prospective payment of hospitals under Medicare. The proposal from HHS was presented to the Congress at the end of 1982.

Legislation based on this prospective payment proposal was enacted in Public Law 98-21, which established a new method of Medicare reimbursement for hospital inpatient care—the prospective payment system (PPS). This appendix describes the major reimbursement provisions of PPS.

General Summary

Effective for hospital cost reporting periods that began on or after October 1, 1983, Medicare payment for hospital inpatient services is made according to a prospective payment system, rather than a retrospective cost-based system. Medicare payments are made at predetermined, specific rates which represent the average cost, nationwide, of treating a Medicare patient according to his or her medical condition. The classification system used to group hospital inpatients according to their diagnoses is known as diagnosis-related groups (DRGs). Separate DRG rates apply depending on whether a hospital is located in a large urban area (greater than 1 million population, or 970,000 in New England), other urban area, or rural area of the country, as determined by the Office of Management and Budget (OMB) Metropolitan Statistical Area system.

During a 4-year transition period, a declining portion of the total prospective payment was based on a hospital's historical reasonable costs and an increasing portion was based on a combination of regional and national Federal DRG rates. In the fifth year of the program (fiscal year 1988) and thereafter, Medicare payments are generally determined under a national DRG payment methodology. Special transition provisions apply to hospitals located in certain geographic regions.

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[1] This appendix draws heavily from a Congressional Research Service issue brief entitled: "Medicare: Prospective Payments for Inpatient Hospital Services."

If a hospital can treat a patient for less than the payment amount, it can keep the savings. If the treatment costs more, the hospital must absorb the loss. A hospital is prohibited from charging Medicare beneficiaries any amounts (except for deductibles, copayment amounts, and for services not covered by Medicare) which represent any difference between the hospital's cost of providing covered care and the Medicare DRG payment amount.

Certain hospital costs are excluded from the prospective payment system and are paid on a reasonable cost basis. In addition, certain hospitals are excluded from the new system and continue to be reimbursed on a reasonable cost basis, subject to rate of increase limits. Authority is provided for States to establish their own all-payer hospital payment systems if they meet certain Federal requirements.

BASIC PAYMENT SYSTEM

Unless excluded from the prospective payment system, each Medicare participating hospital is paid a predetermined payment rate per discharge for each type of patient treated. Types of patients are defined by the diagnosis related groups patient classification system which assigns each hospital inpatient to one of 474 patient categories (DRGs) based on the diagnosis and the type of treatment received (medical or surgical).

The payment rate for each DRG is the product of two components: a base payment amount which applies for all DRGs, and a relative weighting factor for the particular DRG. The base payment amount is intended to represent the cost of a typical (average) Medicare inpatient case. The relative weighting factor represents the relative costliness of an average case in the particular DRG compared to the cost of the overall average Medicare case (i.e., relative to the base payment amount). When the DRG relative weights are each multiplied by the base payment amount, the result is a complete set of prices for all DRGs. Separate DRG rates apply to hospitals located in large urban, other urban, or rural areas of the country as determined by OMB's Metropolitan Statistical Area system (separate base payment amounts apply in these areas, but the DRG relative weighting factors are the same). In addition, the base payment amount (and, therefore, each DRG rate) is adjusted for area differences in hospital wage levels compared to the national average hospital wage level.

Transition period

Application of the DRG payment rates was phased in over a 4-year transition period, starting with each hospital's first cost reporting period which began on or after October 1, 1983. During the transition period, each hospital's payment rates were determined by the hospital's base payment amount per discharge. This amount is a combination of: (1) a hospital specific amount based on the hospital's historical costs in a base year updated for inflation, and (2) a Federal payment amount. The Federal payment amount during the transition is also a combination of two amounts: (1) the national urban or rural payment amount; and (2) the regional urban or rural payment amount for the hospital's geographic region (regional urban and rural payment amounts are calculated separately for each of the nine census regions).

The transition works by gradually shifting the relative importance of each of these amounts in determining the hospital's base payment amount per discharge as illustrated in table 1. In addition, for discharges occurring on or after April 1, 1988, and before October 1, 1990, Public Law 100-203 provides that the Federal amount for hospitals located in each geographic region is determined as the higher of (1) 100 percent of the national amount or, (2) 85 percent of the national amount plus 15 percent of the regional amount. This provision is known as the "regional floor".

TABLE 1.—MEDICARE PROSPECTIVE PAYMENT SYSTEM TRANSITION SCHEDULE

Fiscal year [1]	Hospital specific portion (percent)	Federal DRG portion (percent)
1984	75	25 (0 national plus 100 regional).
1985	50	50 (25 national plus 75 regional).
1986 [2]	[3] 50	50 (25 national plus 75 regional).[3]
	[4] 45	55 (25 national plus 75 regional).[4]
1987 [2]	25	75 (50 national plus 50 regional).
1988 [2]	25	75 (50 national plus 50 regional).[5]
1989	0	100 (100 national plus 0 regional).[6]

[1] The hospital-specific portion and the Federal DRG portion change with the beginning of the hospital's fiscal year. The Federal (national and regional) rates and their proportional shares change with the beginning of the Federal fiscal year.

[2] Special payment rules apply to hospitals in Oregon.

[3] Effective during the first 7 months of a hospital's cost reporting period beginning on or after October 1, 1985.

[4] Effective during the remaining 5 months of a hospital's cost reporting period beginning on or after October 1, 1985.

[5] The percentages of the national and regional Federal amounts apply for discharges occurring during the first 51 days of the fiscal year. The percentages for combining the hospital specific and Federal amounts (25 and 75), apply for the first 51 days of the hospital's cost reporting period that begins during the fiscal year.

[6] The Federal amount is based on 100 percent of the national amount for all discharges occurring after November 21, 1987, but before April 1, 1988. For discharges occurring from April 1, 1988, to September 30, 1990, the Federal amount is the higher of 100 percent of the national amount, or 85 percent of the national amount plus 15 percent of the applicable regional amount. The percentages used to combine the hospital specific amount and the Federal amount apply for discharges occurring after the 51st day of the hospital's cost reporting period that begins during the fiscal year.

Update factors

The Federal payment amounts (urban and rural, regional and national), were derived from an average of historical (1981) Medicare cost data for each hospital. The amounts were updated through fiscal year 1983 by the estimated actual rate of increase in hospital costs nationally. The amounts have been updated for subsequent fiscal years as illustrated in table 3.

Public Law 100-203 required the Secretary, for fiscal year 1989, to increase the PPS payment rates by the market basket increase minus 1.5 percentage points for hospitals located in a rural area, by the market basket increase minus 2 percentage points for hospitals located in a large urban area, and by the market basket increase minus 2.5 percentage points for hospitals located in other urban areas. The Secretary determined that the market basket increase for fiscal year 1989 was 5.4 percent. Therefore, the applicable percentage increases for the year are: 3.9 percent for rural areas, 3.4 percent for large urban areas, and 2.9 percent for other urban areas. For fiscal years 1990 and thereafter, the law requires the Secretary to increase the PPS payment rates by the market basket increase.

The market basket is defined in table 2. This is a uniform index for all hospitals and yields one price inflator for all hospitals in a given year. The relative importance weights of the different categories of cost change periodically.

TABLE 2.—HOSPITAL PROSPECTIVE PAYMENT INPUT PRICE INDEX (THE "MARKET BASKET")

Expense categories	Relative importance [1]		Projected increase 1990 (percent)
	1982	1989	
1. Wages and Salaries [2]	55.83	57.42	5.7
2. Employee Benefits [2]	9.80	9.22	5.6
3. Professional Fees [2]	.76	.79	6.1
4. Energy and Utilities	3.16	1.95	5.3
a. Fuel, Oil, Coal, and Other Petroleum	1.15	.49	8.8
b. Electricity	1.09	.95	3.0
c. Natural Gas	.47	.28	4.7
d. Motor Gasoline	.42	.20	8.8
e. Water and Sewage	.03	.04	7.6
5. Malpractice Insurance	.66	1.90	19.4
6. All Other	29.79	28.71	5.1
All Other Products	21.05	20.27	5.3
a. Pharmaceuticals	4.10	5.54	8.2
b. Food	3.56	3.27	4.8
(1) Contract Service	2.27	2.00	4.4
(2) Direct Purchase	1.29	1.27	5.5
c. Chemicals and Cleaning Products	3.13	2.69	4.4
d. Surgical and Medical Instruments	2.38	1.97	2.9
e. Photographic Supplies	2.26	1.96	2.6
f. Rubber and Plastics	2.16	1.83	5.0
g. Paper Products	1.19	1.16	5.9
h. Apparel	1.08	.85	3.1
i. Minor Machinery Equipment	.43	.37	4.4
j. Miscellaneous Products	.76	.63	4.8
All Other Services	8.74	8.44	4.9
a. Business Services [2]	3.02	2.94	4.8
b. Computer and Data Processing Services [2]	1.40	1.56	6.8
c. Transportation and Shipping	1.06	.93	5.4
d. Telephone	.76	.72	3.8
e. Blood Services [2]	.54	.47	4.3
f. Postage [2]	.32	.29	0.0
g. All Other Services: Labor Intensive [2]	.97	.94	4.9
h. All Other Services: Nonlabor Intensive	.65	.62	4.6
Total	100.00	100.00	5.8

[1] These weights are used to develop the revised labor-related/nonlabor-related components of the standardized rates.

[2] Considered labor-related.

Source: 51 F.R. 31530, September 3, 1986 and Prospective Payment Assessment Commission.

Table 3 provides historical data on recent trends in some of the factors related to increases in the PPS payment rates and increases in average payments per Medicare discharge. Trends in the general level of prices of goods and services as measured by the GNP deflator are also shown for comparison.

The annual update factor applied to increase the Federal base payment amounts for the forthcoming year is determined, in part, by the projected rate of increase in the hospital market basket index. The update factor also includes adjustments for increases in hospital productivity, technological change, and other factors that are expected to affect the level of operating cost per discharge. It is also adjusted to offset that part of the historical increase in average payments per case that is attributable to increases in reported case mix due to changes in coding and reporting accuracy.

Note, however, that the actual increase in the PPS payment rates (the DRG prices) has differed from the update factor each year for several reasons. For example, in the first 2 years, (fiscal years 1984 and 1985) the PPS payment rates were required to be adjusted so that aggregate payments to hospitals included in PPS would be equal to the aggregate payments they would have received if they had been paid under the provisions of prior law (the target rate of increase limits established in TEFRA, Public Law 97-248). As a result of the budget neutrality adjustment, the actual increases in the DRG prices were lower than the increases provided by the PPS update factors for those years, which were set at the market basket increase plus 1 percentage point (5.9 percent) in fiscal year 1984, and the market basket increase plus one-quarter of 1 percentage point (4.4 percent) in fiscal year 1985. In fiscal year 1986, the PPS rates were frozen by the Congress and the update factor of 0.5 percent established in COBRA (Public Law 99-272) applied for only the last 5 months of the fiscal year. Actual increases in the DRG rates in each year also have been affected by changes in policy that required recalculation or adjustment of the Federal base payment amounts or the DRG relative weights.

Actual annual increases in average payments per case depend on a variety of factors in addition to the increase in the PPS rates. Average payments per case include PPS operating payments (DRG payments), payments for the indirect costs of medical education programs, payments for direct medical education costs, payments for capital-related costs and other passthrough payments (kidney acquisition costs, etc.) and payments to hospitals and units excluded from PPS. Therefore, annual increases in average payments per case depend on the increase in the PPS payment rates (which may be larger or smaller than the update factor), the increase in reported case mix and the increases in payments for medical education, capital costs, and payments to excluded hospitals and units. In addition, the increase in actual average payments per case is influenced by changes in other policies. For example, the phaseout of payments for a return on equity capital for proprietary providers will reduce the increase in average payments per case. Similarly, policy changes that increase the number of cases in which the Medicare program is the secondary payer also reduce the increase in the average payment per case. Thus, average payments per discharge may be influenced by factors unrelated to PPS payment policy. Trends in PPS payment policy and the impact of PPS on the hospital system are discussed more fully in the section entitled "Trends in PPS Costs, Revenue and Margins."

TABLE 3.—HISTORICAL TRENDS IN FACTORS AFFECTING PPS RATES AND AVERAGE PAYMENTS PER CASE

[Percentage change from previous year]

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Market basket index	8.3	5.9	4.9	4.1	3.1	4.5	4.7	5.4	4.7
Annual update factor					[1] 0.5	1.15	[2] 1.6	3.3	4.7
Case mix index			8.4	2.5	2.7	2.4	2.0	1.0	1.0
Average payments per discharge	14.0	10.4	10.4	14.9	7.1	4.1	2.9	3.8	7.7
Average payment per beneficiary	15.4	11.7	7.2	6.3	2.9	1.8	2.4	4.7	9.0
GNP deflator	6.4	3.8	3.9	3.4	2.9	3.2	3.1	4.0	3.6

[1] Effective beginning with the eighth month of the fiscal year.

[2] This figure is a weighted average of the separate update factors for rural, large urban, other urban and excluded hospitals and units that took effect on April 1, 1988.

Note: All data for 1983–87 are from HCFA Office of the Actuary (preliminary, incurred cost basis). Data for 1988–90 are from HCFA Budget Office, are the basis of the President's Proposed 1990 Budget, and are based on estimates/projections of reimbursements.

DRG weighting factors

Public Law 98–21 required the HHS Secretary to adjust the DRG definitions and weighting factors in fiscal year 1986 and at least every 4 years thereafter to reflect changes in treatment patterns, technology, and other factors which may change the relative use of hospital resources. Public Law 99–509, however, required the Secretary to adjust the DRG definitions and weighting factors each year, beginning in fiscal year 1988.

Table 4 shows the 25 DRGs accounting for the largest numbers of Medicare inpatient discharges during fiscal year 1988. Table 5 shows the extent to which DRG weighting factors have changed as a result of the recalibration for fiscal year 1988. Information about all DRGs appears in table 27 at the end of this appendix.

TABLE 4.—SHORT STAY HOSPITAL DISCHARGES, BY RANK ORDER OF THE TWENTY DIAGNOSIS-RELATED GROUPS WITH THE MOST DISCHARGES IN 1986: FISCAL YEARS 1984, 1985, 1986, AND 1987

Diagnosis-related group number and description		1986				1985		1984		1987 rank order
		Discharges	Number Percent	Rank order	Average length of stay	Discharges percent	Rank order	Discharges percent	Rank order	
	All diagnosis-related groups (number in thousands)	10,334.0	100.0		9.1	10,314.3		11,816.7		
	20 Leading diagnosis-related groups	4,447.7	43.0		9.2	41.6		38.3		
127	Heart failure and shock	509.7	4.9	1	8.0	4.9	1	4.5	1	1
089	Simple pneumonia and pleurisy [1]	367.3	3.6	2	9.0	3.3	2	2.7	6	4
140	Angina pectoris	366.9	3.6	3	5.0	3.3	3	2.7	5	2
014	Specific cerebrovascular disorders except transient ischemic attack [1]	330.8	3.2	4	11.1	3.2	4	3.0	4	3
182	Esophagitis, gastroenteritis, and miscellaneous digestive disorders [1]	302.7	2.9	5	5.9	3.1	5	3.4	3	5
430	Psychoses	249.6	2.4	6	21.0	2.1	6	1.8	10	NA
296	Nutritional and miscellaneous metabolic disorders [1]	219.8	2.1	7	7.6	2.0	7	1.4	16	8
138	Cardiac arrythmia and conduction disorders [1]	218.1	2.1	8	5.9	2.0	8	1.8	9	9
096	Bronchitis and asthma [1]	207.6	2.0	9	7.1	1.8	9	1.5	14	6
209	Major joint procedures	175.2	1.7	10	13.7	1.5	13	1.3	19	7
336	Transurethral prostatectomy [1]	170.1	1.6	11	6.7	1.5	14	1.3	18	18
015	Transient ischemic attacks	166.8	1.6	12	5.6	1.7	12	1.5	13	10
088	Chronic obstructive pulmonary disease	166.6	1.6	13	8.5	1.7	10	2.0	7	16
243	Medical back problems	157.8	1.5	14	7.2	1.7	11	1.8	8	11
320	Kidney and urinary tract infections	156.9	1.5	15	8.2	1.3	19	1.0	21	13
147	Gastrointestinal hemorrage [1]	155.1	1.5	16	6.9	1.5	16	1.2	20	17
468	Unrelated operating room procedure	142.1	1.4	17	14.9	1.4	17	1.6	12	NA

TABLE 4.—SHORT STAY HOSPITAL DISCHARGES, BY RANK ORDER OF THE TWENTY DIAGNOSIS-RELATED GROUPS WITH THE MOST DISCHARGES IN 1986: FISCAL YEARS 1984, 1985, 1986, AND 1987—Continued

Diagnosis-related group number and description	1986				1985		1984		1987 rank order
	Discharges	Number Percent	Rank order	Average length of stay	Discharges percent	Rank order	Discharges percent	Rank order	
122 Circulatory disorders with acute myocardial infarction and cardiovascular complications, discharged alive	134.9	1.3	18	8.7	1.4	18	1.5	15	14
148 Major small and large bowel procedures [1]	124.9	1.2	19	16.4	1.1	23	0.9	25	20
210 Hip and femur procedures except major joint [1]	124.8	1.2	20	14.7	1.1	21	1.0	24	NA

[1] Age greater than 17 and/or complications.
NA—Not available.

Source: Health Care Financing Administration, Office of Data Management, Division of Data Development.

TABLE 5.—DISTRIBUTION OF PERCENT CHANGE IN DRG WEIGHTS

Percent change in DRG weight	Fiscal year 1986 recalibration		Fiscal year 1988 recalibration	
	Percent of DRGs	Percent of cases	Percent change in DRGs	Percent of cases
< −20	9.6	4.2	4.7	1.4
−10.1 to −20	14.8	9.9	12.4	7.0
−5.1 to −10	14.1	19.8	14.1	15.0
−0.1 to −5	14.8	29.8	14.3	17.2
0	7.7	<.01	6.8	<.01
0.1 to 5	11.3	9.6	14.1	25.5
5.1 to 10	9.0	14.3	12.2	11.6
10.1 to 20	9.8	9.4	13.0	17.9
20+	9.8	2.7	7.9	4.1

Source: ProPAC analysis of MEDPAR data from fiscal years 1984 and 1986.

Source and calculation of the hospital wage index

The hospital wage index is used to adjust a hospital's base payment amount for the wage level of the hospital's area. This is accomplished by multiplying the labor-related component of the Federal portion of the payment amount by a wage index. The wage index is intended to measure the average wage level for hospital workers in each urban area (metropolitan statistical area or MSA) or rural area (non-MSA parts of States) relative to the national average wage level.

Until May 1, 1986, the index was based on compensation and employment data for hospital workers, for calendar year 1981, as reported to the Bureau of Labor Statistics in the U.S. Department of Labor. The wage level for each area was calculated by dividing the total wages and salaries reported by all hospitals in the area, by the total number of hospital employees. The national average wage level was determined by summing the average wages per employee across all areas and dividing the total by the number of areas. Then the wage index for each area was calculated by dividing its average wages per employee by the national average wages per employee.

However, many hospitals use part-time employees and the proportion of part-time employment varies among labor market areas. Therefore, the wage index based on these data tended to understate the true level of hospital hourly wage rates in areas where hospitals place relatively heavy reliance on part-time workers. In addition, the wages per employee figure from each area was counted equally in determining the national average wage level; the wage level for an area with only 400 employees had the same influence on the national average as the wage level for an area with 80,000 employees. As a result, the whole set of area wage indexes was sometimes sensitive to corrections of the data for only a few areas.

The Deficit Reduction Act of 1984 required HHS to conduct a study to develop a new wage index, taking into account differences in the proportions of full-time and part-time employment among hospitals in different areas. If changes were made to the wage index as a result of this study, the Secretary was required to make retroactive adjustments to the PPS payment amounts for hospital cost reporting periods beginning on or after October 1, 1983. The Department surveyed hospitals subject to PPS to obtain total wages and salaries and paid hours of employment data for 1982 and submitted a report to Congress on March 29, 1985, describing two new wage indexes developed from these data.

Both of these indexes resolved the part-time employment problem by calculating the average wage level in each area on the basis of the number of paid hours of employment, rather than on the basis of the number of employees. However, the method of calculating the national average wage level was not changed. Thus, the index was still sensitive to relatively minor corrections in the data.

In final PPS regulations published September 3, 1985 (50 FR 35645), HHS proposed to implement one of these indexes—the gross wage index—effective October 1, 1985. However, Public Law 99-107, as amended by Public Law 99-201, precluded any changes in the PPS payment rates or methodology through March 14, 1986. This was continued through April 30, 1986 by Public Law 99-272. The gross wage index became effective on May 1, 1986.

In final regulations published on September 1, 1987 (52 FR 33039, Sept. 1, 1987), the Secretary changed the method of calculating the national average wage level, and updated the wage index data. The national average wage level is now calculated by dividing national aggregate wages and salaries by the national aggregate number of paid hours of hospital employment. Under this method, the index as a whole is not likely to be sensitive to minor changes in the data for individual labor market areas. The Secretary also decided to implement a new wage index based on data for wages and salaries and paid hours of employment for hospital cost reporting periods beginning during fiscal year 1984 (the first year of the PPS). However, in order to avoid large changes in index values for individual areas, which could result if the index based on 1984 data completely replaced the previous index (based on 1982 data), the Secretary adopted a blended wage index. The blended wage index value for each area is calculated by adding together the 1982 and the 1984 index values for the area and dividing the resulting sum by 2. Wage index values for urban and rural labor market areas located in Puerto Rico are based solely on 1984 data. The new index took effect for discharges occurring in fiscal year 1988. A new wage index, based solely on 1984 data, was proposed May 27, 1988, to apply to discharges in fiscal year 1989. However, in the final rule published September 30, 1988, the Secretary chose to continue to use the blended wage index for discharges in fiscal year 1989. Tables 25 and 26, at the end of this appendix, give the current wage index values for each metropolitan area and for rural areas in each State.

Public Law 100-203 (OBRA87) requires the Secretary to update the wage index by October 1, 1990, and at least every 3 years thereafter. Updates are to be based on a periodic survey of the wages and wage related costs of PPS hospitals. To the extent feasible, the survey must be designed to measure earnings and hours of paid employment by occupational category, and to permit exclusion of the wages and wage related costs hospitals incur in providing skilled nursing facility services.

The calculation of the index begins with the area average hospital hourly wage. For each MSA or non-MSA area (i.e., all non-MSA counties in a State) total county compensation and total paid hours data are summed separately over all counties included in the area. Then aggregate hospital compensation for the area is divided by aggregate paid hours of hospital employment in the area to produce the area average hourly wage. The hospital wage index is calculated by dividing the average hourly wage for each area by the national average hourly wage (determined by dividing national aggregate compensation by national aggregate paid hours of employment).

This procedure results in an index number, such as 0.8474 (Asheville, North Carolina) or 1.2104 (Sacramento, California) for each MSA or non-MSA area in the United States. Since the national average wage level is represented by an index value of 1.000, the wage index value for any area has a direct and simple interpretation. The value of 1.2104 for Sacramento means that the average hourly wage rate for hospital workers is 21.04 percent higher in the Sacramento MSA than the national average hourly wage rate.

Thus, in computing the Federal portion of the hospital payment rates applicable for hospitals in the Sacramento MSA, the labor-related component of the national urban adjusted standardized payment amount ($2,374.22) is multiplied by 1.2104 in order to adjust for the higher level (21.04 percent) of hospital hourly wage rates in this area. Similarly, the calculation of the Federal portion of the rates for hospitals in Asheville would involve a reduction in the published labor-related component of the national adjusted standardized payment amount, to reflect the fact that average hourly wage levels in this MSA are 15.26 percent lower than the national average (as indicated by the wage index value of 0.8474).

SAMPLE PAYMENT CALCULATION

The Federal large urban, other urban, and rural base payment amounts per discharge for fiscal year 1989 were published in the Federal Register on September 30, 1988 (see table 6). Although Federal urban and rural payment amounts are included for each region, after November 21, 1987, the regional amounts are applied in determining payment rates only for sole community hospitals and hospitals located in regions affected by the regional floor.

Each payment amount is divided into a labor-related component and a nonlabor related component. The sum of these components represents the base payment amount that would apply for a hospital located in an area with a wage index of 1.0 (i.e., average wage rates for hospital workers in the area match the national average of hospital wage rates across all areas).

The basic payment to a hospital for a case in a particular DRG is the applicable national (or in some cases, regional) payment amount, adjusted by the local wage index value and multiplied by the weighting factor for the DRG.

For an example of a payment calculation, assume a hospital is located in Washington, D.C. Such a hospital would be in a large urban area in census region 3. As this is not one of the regions affected by the regional floor, payment is based on the large urban national standardized amount. First the labor-related portion of this amount ($2,374.22 in fiscal year 1989) is multiplied by the appropriate wage index (1.0922 for Washington, D.C.):

$$\$2{,}374.22 \times 1.0922 = \$2{,}593.12$$

To this total is added the nonlabor-related portion of the standardized amount:

$$\$2{,}593.12 + \$840.95 = \$3{,}434.07$$

For each discharge this new total is then multiplied by the relative weight for the DRG to which the case has been assigned. These weights range from a low of 0.1242 for DRG 382 (false labor) to a high of 14.708 for DRG 103 (heart transplant). The payment rates for the sample hospital in fiscal year 1989 would therefore vary from a low of $426.51 ($3,434.07 × .1242) to a high of $50,508.30 ($3,434.07 × 14.708). This payment would be reduced by the Medicare inpatient deductible amount ($560 in calendar 1989) unless the beneficiary had already met the deductible for the year in a previous inpatient stay.

TABLE 6.—REGIONAL AND NATIONAL ADJUSTED STANDARDIZED AMOUNTS, LABOR/NONLABOR, FISCAL YEAR 1989

[In dollars]

	Large urban		Other urban		Rural	
	Labor related	Nonlabor related	Labor related	Nonlabor related	Labor related	Nonlabor related
New England (CT, ME, MA, NH, RI, VT)	2,492.76	877.87	2,468.48	869.32	2,459.67	729.25
Middle Atlantic (PA, NJ, NY)	2,239.44	833.05	2,217.63	824.94	2,358.50	687.99
South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV)	2,390.57	767.55	2,367.29	760.07	2,251.81	597.80
East North Central (IL, IN, MI, OH, WI)	2,520.39	907.78	2,495.85	898.94	2,281.73	664.15
East South Central (AL, KY, MS, TN)	2,294.31	695.00	2,271.96	688.23	2,231.78	557.45
West North Central (IA, KS, MN, MO, NB, SD)	2,391.22	827.47	2,367.93	819.41	2,169.19	595.56
West South Central (AR, LA, OK, TX)	2,384.08	762.35	2,360.87	754.92	2,080.31	547.70
Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	2,292.60	817.28	2,270.27	809.33	2,114.98	634.06
Pacific (AK, CA, HI, OR, WA)	2,230.84	932.77	2,209.12	923.68	2,046.07	709.66
Puerto Rico	2,109.03	377.31	2,088.51	373.63	1,483.55	274.62
National	2,374.22	840.95	2,351.10	832.75	2,219.89	614.82

Source: 53 Fed. Reg. 38543–38545.

In addition to the basic payment for each case, additional payments may be made to teaching hospitals and hospitals that serve a disproportionate share of low-income patients. Any hospital may receive additional payments for outliers (cases with extraordinarily high costs or a very long stay, relative to other cases in the DRG) and for treatment of beneficiaries with end stage renal disease. Finally, certain hospital costs, such as those related to capital, are excluded from PPS and reimbursed separately. The next sections of this appendix discuss additional PPS payments and the separate reimbursement of excluded costs.

ADDITIONAL PAYMENT AMOUNTS

In addition to the DRG prospective payment rates, Medicare payments are made to hospitals for the following items or services:

Indirect medical education costs

Additional payments are made to hospitals under the prospective system for the indirect costs attributable to approved medical education programs. These indirect costs may be due to a variety of factors, including the extra demands placed on the hospital staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents. Congressional reports on the PPS authorizing legislation indicate that the indirect medical education payments are also to account for factors not necessarily related to medical education which may increase costs in teaching hospitals, such as more severely ill patients, increased use of diagnostic testing, and higher staff-to-patients ratios.

As amended by Public Law 99–272, the additional payment to a hospital is based on a formula that provides an increase of approximately 8.1 percent in the Federal portion of the DRG payment, from May 1, 1986, to October 1, 1989. The payment increases for each 0.1 increase in the hospital's intern and resident to bed ratio on a curvilinear or variable basis (i.e., the increase in the payment is less than proportional to the increase in the ratio of interns and residents to bed size).

Public Law 100–203 reduced the indirect medical education adjustment factor from approximately 8.1 percent to approximately 7.7 percent, effective for discharges occurring on or after October 1, 1988, but before October 1, 1990. The payment adjustment after October 1, 1990, would be an increase of approximately 8.3 percent.

Disproportionate share hospitals

Public Law 99–272 provided that additional payments will be made from May 1, 1986, to October 1, 1988, to hospitals that serve a disproportionate share of low-income patients. For urban PPS hospitals with more than 100 beds having a percentage of low-income patients of at least 15 percent, the Federal portion of the hospital's PPS payment is increased by 2.5 percent plus one-half the difference between 15 percent and the hospital's percentage of low-income patients, not to exceed a 15 percent adjustment. For urban hospitals with less than 100 beds having a percentage of low-income patients of at least 40 percent, the payment increase is 5 percent. For rural hospitals having a low-income patient percentage of at least 45 percent, the payment increase is 4 percent.

The percentage of low-income patients is defined as the hospital's total number of inpatient days attributable to Medicare beneficiaries who also receive Federal Supplemental Security Income payments divided by the total number of Medicare patient days, plus the number of Medicaid patient days divided by the total patient days.

Payments will also be made to urban hospitals with 100 or more beds which demonstrate that more than 30 percent of their net inpatient revenues are derived from State and local government payments for indigent care (excluding payments under Medicare and Medicaid).

Public Law 99–509 authorized the Secretary to establish a separate threshold precentage of low-income patients required for rural hospitals of 500 or more beds to qualify for disproportionate share payments. The Secretary decided to make additional payments to such hospitals on the same basis as urban hospitals with more than 100 beds. The legislation also extended additional payments to disproportionate share hospitals through October 1, 1989, in a budget neutral fashion (i.e., the teaching adjustment factor used to make additional payments for the indirect costs of approved medical education programs continues to be reduced from 8.7 to 8.1 percent during fiscal years 1988 and 1989 to finance the disproportionate share payments).

Public Law 100–203 extended the additional payment for disproportionate share hospitals until October 1, 1990. Effective for discharges occurring on or after October 1, 1988, the upper limit on the disproportionate share adjustment pecentage (currently 15 percent) for urban hospitals with 100 or more beds is eliminated. The disproportionate share adjustment percentage is also increased from 15 to 25 percent for urban hospitals with 100 or more beds which receive more than 30 percent of their net inpatient revenues (excluding revenues from Medicare and Medicaid) from State and local government contributions for indigent care. This legislation also authorized the Secretary to grant disproportionate share payments to certain hospitals that are part of a multifacility provider, if the individual hospital would qualify for disproportionate share payments but the provider as a whole does not.

Public Law 100–647 extends the disproportionate share payments through September 30, 1995.

Direct medical education costs

The direct costs of approved medical education programs (such as the salaries of residents and teachers and other education costs for residents, nurses, and allied health professionals) are excluded from the prospective payment system. The direct medical education costs for the training of nurses and allied health professionals are paid for on a reasonable cost basis.

Public Law 99-272 provided that payments for the cost of approved graduate medical education programs (i.e., residency training programs for physicians) be made as follows: For cost reporting periods beginning on or after July 1, 1985, the Medicare payment to each hospital is equal to the hospital's full-time equivalent (FTE) resident amount, times the weighted average number of FTE residents, times the percentage of inpatient days attributable to Medicare Part A beneficiaries. For each hospital with an approved medical residency training program, an average cost per FTE resident is calculated using data from the hospital's cost reporting period that began in fiscal year 1984. These FTE amounts are updated by the increase in the CPI over the next 12-month period; for hospital cost reporting periods beginning July 1, 1985, the FTE resident amounts are increased by 1 percent; and for subsequent cost reporting periods, the FTE amounts are updated by the change in the CPI.

The number of FTE residents is calculated as follows; before July 1, 1986, the weighting factor for each FTE resident is 100 percent; after July 1, 1986, the weighting factor for residents in their initial residency period (i.e., within the minimum number of years of formal training necessary to satisfy specialty requirements for board eligibility plus 1 year, but not to exceed 5 years) is 100 percent; after July 1, 1986, but before July 1, 1987, the weighting factor for residents not in their initial residency period is 75 percent; after July 1, 1987, the weighting factor for residents not in their initial residency period is 50 percent. Geriatric residencies or fellowships not exceeding 2 years are excluded from these limits.

On or after July 1, 1986, residents who are foreign medical graduates (FMGs) will not be counted as FTE residents unless they have passed the Foreign Medical Graduate Examination in the Medical Sciences or have previously received certification from or have passed an examination of the Educational Commission for Foreign Medical Graduates. Those foreign medical graduates who were in training before July 1, 1986, and who are still residents will be counted at the 50 percent rate.

Public Law 99-509 provided that time spent in a nonhospital outpatient setting is reimbursable by Medicare if the hospital incurs substantially all of the costs of residency training in the ambulatory setting.

ESRD beneficiary discharges

Effective with cost reporting periods beginning on or after October 1, 1984, additional payments are made to hospitals for inpatient dialysis provided to end-stage renal disease (ESRD) beneficiaries if total discharges of such beneficiaries from non-ESRD related DRGs account for 10 percent or more of the hospital's total Medicare discharges. A hospital meeting the criteria is paid an additional payment for each ESRD beneficiary discharge based on the estimated weekly cost of dialysis and the average length of stay of its ESRD beneficiaries.

Outliers

Additional amounts are paid to hospitals for atypical cases (known as "outliers") which have either extremely long length of stay (day outliers) or extraordinarily high costs (cost outliers) compared to most discharges classified in the same DRG. The law requires that total outlier payments to hospitals covered by the system represents no less than 5 percent and no more than 6 percent of the total estimated Medicare DRG payments for the fiscal year. Effective with discharges occurring on or after October 1, 1984, a transferring hospital may qualify for an additional payment for extraordinarily high-cost cases meeting the criteria for cost outliers. Outlier payments are financed by an offsetting overall reduction in the Federal portion of the base payment amount per discharge. Effective October 1, 1986, Public Law 99-509 established separate urban and rural set-aside factors for financing outlier payments.

Public Law 100-203 increased payments for outlier cases classified in DRGs relating to patients with burns from April 1, 1988, through September 30, 1989. This legislation also prohibited the Secretary from issuing any final regulations before September 1, 1988, which change the method of payment for outlier cases (other than burn cases).

The Secretary published new outlier rules on September 30, 1988, effective for discharges on or after October 1, 1988. The new rules modify the thresholds used in determining whether a case is an outlier and increase the allowable payment amounts for cost outliers. The effect of the changes is to increase the proportion of all outlier payments going to cost outliers. Previously, about 85 percent of outlier payments were made for length of stay outliers and 15 percent for cost outliers. Under the new rules, 60 percent of payments will be made for cost outliers and 40 percent for length of stay outliers. (Cases that meet both length of stay and cost outlier criteria are paid under the policy that produces the higher payment.)

To determine the amount of additional payments for outlier cases, the length of stay (LOS) for each case in a DRG is first compared against the applicable LOS threshold for the category. If the LOS for a case exceeds the threshold, then the case qualifies as a day outlier. In this instance, the hospital is paid its regular payment rate per discharge (for this DRG), plus the Federal portion of a per diem amount (60 percent of the hospital's Federal per diem rate for the DRG) for each Medicare covered day above the LOS threshold.

If the case does *not* qualify as a day outlier, then it may qualify as a cost outlier. The case will qualify for extra payments on this basis if the hospital's Medicare covered charges for the case, adjusted to operating costs (and reduced by its indirect teaching and disproportionate share adjustments, if applicable), exceed its cost outlier threshold for the DRG. In this instance, the hospital is paid its regular payment rate per discharge for the DRG, plus the Federal portion of 70 percent of the difference between its adjusted (and reduced) charges for the case and the cost outlier threshold.

Table 7 shows the changes in outlier policy that have occurred during the first 6 years of the PPS.

TABLE 7.—FISCAL YEAR 1984–1989 OUTLIER POLICY PARAMETERS

	1984	1985	1986 [1]	1987	1988	1989 [2]
Pool target	5.7% (1.4%) [3]	5.0%	5.0%	5.4% (urban) 2.2% (rural)	5.6% (urban) 2.5% (rural)	5.6% (urban) 2.2% (rural)
Federal portion	25.0% [3]	50.0%	55.0%	75.0%	100.0%	100%
Length of stay thresholds [4].	Lesser of 20 days or 1.94 x S.D.	Lesser of 22 days or 1.94 x S.D.	Lesser of 17 days or 1.94 x S.D.	Lesser of 17 days or 1.94 x S.D.	Lesser of 18 days or 2.00 x S.D.	Lesser of 24 days or 3.00 x S.D.
Cost thresholds	Greater of 1.5 x DRG Federal rate or $12,000	Greater of 2.0 x DRG Federal rate or $13,000	Greater of 2.0 x DRG Federal rate or $13,500	Greater of 2.0 x DRG Federal Rate or $13,500	Greater of 2.0 x DRG Federal rate or $14,000	Greater of 2.0 x DRG Federal rate or $28,000
Cost-to-charge ratio used for cost outliers.	72.0%	72.0%	72.0%	66.0%	66.0%	Hospital-specific
Marginal cost factor	60.0%	60.0%	60.0%	60.0%	60.0%	60.0% (length of stay), 75.0% (cost)

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[1] The outlier policy for fiscal year 1986 was effective May 1, 1986.

[2] Effective for discharges after October 31, 1988. For discharges between October 1 and October 31, 1988, transitional thresholds applied as follows; length of stay, lesser of 22 days or 2 standard deviations; cost, greater of 2 times Federal rate or $23,750.

[3] For PPS discharges between October 1, 1983 and February 2, 1984, outlier payments were anticipated to be approximately 5.7 percent of total basic PPS payments. Outlier payments applied to both the hospital-specific and the Federal portion of the payment during that period. For PPS discharges between February 3, 1984 and September 20, 1984, outlier payments were anticipated to be approximately 1.4 percent of total anticipated PPS payments (25 percent of 5.7 percent). After February 2, 1984, hospitals only received outlier payments on the Federal portion of their prospective payment.

[4] The LOS threshold for a DRG is set at the lesser of the national average LOS for all cases in the DRG plus a fixed number of days (e.g., 20 days in fiscal year 1984) or the national average LOS for the DRG plus a fixed number of standard deviations (e.g., 1.94 SD in fiscal year 1984). The number of days represented by a fixed number of standard deviations varies among the DRG categories.

PAYMENTS ON A REASONABLE COST BASIS

Costs for certain items are excluded from the prospective payment system and thus are not included in the prospective payment rates. Medicare pays for its share of the following costs according to the former reasonable cost-based system:

Capital-related costs

Public Law 98–21 provided that capital-related costs (including depreciation, leases and rentals, interest, and a return on equity for proprietary hospitals) are excluded from the prospective payment system until no earlier than October 1, 1987, and are paid for on a reasonable cost basis. This legislation also required the Secretary to report to Congress within 18 months of enactment (October 1984) on methods and proposals by which capital costs can be included in the prospective payment rates. In March 1986, HHS submitted a report to Congress on incorporating capital costs in the prospective payment rates.

OBRA87 provided that payment amounts for capital-related costs are decreased by 15 percent in fiscal year 1989. This legislation also prohibits the Secretary from incorporating payment of capital related costs into the PPS payment rates before October 1, 1991. However, the Secretary is required to make payments for capital related costs on a per case, prospective basis beginning on October 1, 1991. The methods to be used in making prospectively determined capital payments are generally left to the discretion of the Secretary. In addition, OBRA87 requires ProPAC to undertake a study and report to Congress by May 1, 1988, on the suitability and feasibility of linking payment for capital related costs to hospital occupancy rates.

Reimbursable capital expenses include:

Depreciation.—Depreciation is the dollar amount representing the portion of an asset's cost or value which is used up during a period of operation. Depreciation accounting is a system of accounting which prorates the cost or other basic value of a tangible capital asset, less salvage value (if any), over its estimated useful life.

An appropriate allowance for depreciation on buildings and equipment used to render care covered by Medicare is reimbursable as a capital cost. Depreciation is based on the historical, i.e., original, cost of the asset except that special rules apply in the case of assets acquired prior to 1966. The program recognizes depreciation on assets in use at the time the provider enters the program even though such assets have been fully or partially depreciated on the provider's books. A depreciation allowance is also permitted on assets that are used in a normal standby or emergency capacity or for assets financed by public funds.

In general, the useful life of an asset is based on the useful-life guidelines published by the American Hospital Association or the Internal Revenue Service. Generally, options for straight-line depreciation (which provides a uniform allowance each year) and accelerated depreciation (which permits a larger writeoff in the initial years) are permitted for assets acquired before August 1970; only straight line and (within limits) declining balance depreciation (which is one form of accelerated depreciation) are recognized for assets acquired at a later date.

Reimbursement for capital-related costs after a change of ownership is limited to the lesser of the amount that would be allowable on the purchase price or the allowable cost under Medicare to the original owner. Thus, upward revaluation of assets is no longer permitted in calculating allowable depreciation expenses. Also, transaction costs are no longer allowable costs in a resale of assets. The conference report for Public Law 98-369 also states the conferees' expectation that the Secretary will determine the reasonableness of rental costs associated with depreciable assets that have been sold in order to prevent circumvention of the revaluation restrictions by sale and lease-back arrangements.

Special rules apply with respect to gains or losses resulting from disposal of assets. In particular, when an asset is sold at a price that differs from its depreciated value, Medicare shares in the gain or loss in the same proportion as it shares in total depreciation expense. Medicare's gain (recapture) is limited to the total amount of depreciation previously paid to the seller on the asset sold. Medicare's loss is limited to its share of the asset's current depreciated value.

Medicare does not require the funding of depreciation; that is, the provider is not required to set aside the amount allowed for depreciation for replacement of the asset. However, as an incentive for funding, investment income on funded depreciation is not treated as an offset to allowable interest expense.

Public Law 97-34, the Economic Recovery Tax Act of 1981, made a number of changes in the calculation of depreciation for tax purposes. However, the law excludes Medicare (and other programs administered by HHS) from the new depreciation rules for purposes of determining cost reimbursement under the program.

Interest.—Necessary and proper interest on current and capital indebtedness is included as a reimbursable capital cost under Medicare. Generally, current indebtedness represents short-term loans for working capital for normal operating expenses. Capital indebtedness represents long-term loans in which the funds are used for acquiring facilities and equipment or making capital improvements.

To be recognized as an allowable cost, interest must be incurred on funds needed to satisfy the financial needs of the hospital and must be for a purpose reasonably related to patient care. Public Law 98-369 provides that, in the case where funds are borrowed for the purchase of used assets (change of ownership), the interest expense allowable to the new owner may not exceed the amount that would be incurred by borrowing funds equal to the depreciated value of the assets on the seller's books (i.e., without revaluation).

The rate of interest may not be in excess of what a prudent borrower would have had to incur in the money market in an arm's-length transaction. The interest must be paid to a lender not related through control, ownership, or personal relationship to the borrowing organization.

Generally, allowable interest expenses are reduced by investment income except where such income is from: (1) gifts, grants, and endowments, whether restricted or unrestricted; (2) funded depreciation; (3) a provider's qualified pension fund; or (4) deferred compensation funds.

Return on equity capital of proprietary hospitals.—A reasonable return on equity capital invested and used in providing patient care is an allowable cost for proprietary providers. Equity capital is the net worth of a provider excluding those assets and liabilities not related to patient care. Specifically equity capital includes: (1) a provider's investment in plant, property, and equipment (net of depreciation) related to patient care, plus funds deposited by a provider who leases such items where such deposit is required by the lease; and (2) net working capital maintained for necessary and proper operation of patient care activities.

The base amount of equity capital to be used in computing the allowable return is the average investment of the owners during a reporting period. The rate of return (for cost reporting periods on or after April 20, 1983) is equal to the rate of interest paid by the Federal Treasury on the assets of the Federal Hospital Insurance Trust Fund.

Public Law 98-369 provides that the return on equity capital on assets purchased from a previous owner (change of ownership) is limited to the amount that would be payable if the return were calculated on the depreciated value of the assets on the previous owner's books at the time of the sale.

Public Law 99-272 provided that payments to proprietary hospitals for a return on equity (ROE) will be separated from payments for other capital costs and will be phased out as follows: for hospital cost reporting periods beginning in fiscal year 1987, payment will equal 75 percent of the otherwise allowable ROE amount; for fiscal year 1988, 50 percent; for fiscal year 1989, 25 percent; and for fiscal year 1990 and thereafter, no ROE payments will be made.

Public Law 100-119 delayed the phaseout of ROE payments to proprietary hospitals, for the period from October 1, to November 20, 1987. On November 21, 1987, the phaseout of ROE payments resumed.

Table 8 shows variations in the projected level of average capital costs per case by geographic location and type of hospital for fiscal year 1988.

Table 9 shows two sets of projections of the level and the rate of increase of aggregate payments and payments per case for capital-related costs in fiscal years 1984 through 1994.

Both sets of projections for capital reflect recently enacted provisions which phase out payments for a return on equity capital for proprietary providers. The second set also includes the anticipated effects of statutory reductions in reimbursements for capital-related costs (i.e., 3.5 percent for portions of cost-reporting periods in fiscal year 1987, 12 percent for fiscal year 1988, and 15 percent for fiscal year 1989) enacted in the Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509) and in the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203).

TABLE 8.—FISCAL YEAR 1988 CAPITAL AVERAGE COSTS PER CASE AND PERCENT DISTRIBUTION OF HOSPITALS BY CAPITAL COST PER CASE

	Average cost per case [1] [2]	Percentage distribution of hospital by capital cost per case [1]				
		0 to $149	$150 to $299	$300 to $449	$450 to $599	$600 plus
Overall total	$430	18.6	32.0	20.6	12.0	16.8
Region:						
New England	360	14.1	47.1	18.5	10.1	10.1
Middle Atlantic	423	13.0	34.9	20.0	12.8	19.3
East North Central	436	10.4	33.9	25.6	15.7	14.5
West North Central	411	28.1	38.0	16.2	9.3	8.5
South Atlantic	400	18.0	32.5	22.5	10.6	16.5
East South Central	393	25.9	30.3	19.9	9.7	14.2
West South Central	417	26.8	28.8	18.0	11.5	14.9
Mountain	463	25.9	29.5	21.7	11.1	11.8
Pacific	528	10.2	24.3	21.1	13.9	30.6
Bed size:						
0 to 99	294	32.0	38.5	13.8	6.2	9.5
100 to 299	454	7.4	27.8	25.0	15.6	24.3
300 to 499	443	2.4	21.1	31.3	25.5	19.7
500 plus	470	1.8	21.9	31.8	19.9	24.5
SMSA:						
SMSA	472	7.5	24.5	25.4	17.0	25.7
Non-SMSA	304	30.4	40.0	15.5	6.7	7.3
Teaching status:						
Major Teaching	548	6.3	21.9	23.1	20.0	28.8
Minor Teaching	458	3.2	23.3	30.9	20.5	22.0
Nonteaching	404	22.0	34.0	18.6	10.2	15.3
Ownership:						
Church	472	7.4	23.1	28.4	18.4	22.7
Government	308	34.2	39.4	15.5	6.2	4.7
Other	413	15.7	35.5	22.4	12.3	14.2
Proprietary	615	7.7	16.3	19.0	16.0	41.1

[1] Capital cost per case excluding return on equity.

[2] Average cost weighted by discharges. The unweighted average is $381.

Source: Preliminary CBO estimates using 1984 Medicare Cost File.

Physicians in teaching hospitals

If a teaching hospital so elects, the direct medical and surgical services of physicians in such hospitals will be excluded from the prospective payment system and paid for on the basis of reasonable costs.

TABLE 9.—ESTIMATED PAYMENTS FOR INPATIENT CAPITAL-RELATED COSTS UNDER MEDICARE'S HOSPITAL INSURANCE PROGRAM, FISCAL YEARS 1984–94 [1]

	Without OBRA 1986–87 percentage reductions			With OBRA 1986–87 percentage reductions [2]		
	Aggregate payments (billions)	Percent increase	Payments per case	Aggregate payments (billions)	Percent increase	Payments per case
Fiscal year:						
1984 [3]	$3.3	11.0	$280	$3.3	11.0	$280
1985	3.6	11.0	335	3.6	11.0	335
1986	4.0	11.0	380	4.0	11.0	380
1987	4.4	9.5	415	4.2	5.7	400
1988	4.8	9.5	445	4.3	2.0	400
1989	5.3	9.5	475	4.5	3.5	405
1990	5.8	9.5	505	5.8	28.8	505
1991	6.4	11.0	545	6.4	11.0	545
1992	7.1	11.0	585	7.1	11.0	585
1993	7.9	11.0	630	7.9	11.0	630
1994	8.7	11.0	680	8.7	11.0	680

[1] Both projections for capital-related payments reflect recently-enacted provisions which phased out payments for a return-on-equity capital for proprietary providers.

[2] Includes freeze from Oct. 1, 1987 through Nov. 20, 1987; percentage reductions were 3.5 percent in fiscal year 1987, 12 percent in fiscal year 1988, and 15 percent in fiscal year 1989.

[3] CBO estimate of actual payments. All other years are projected payments.

Source: Congressional Budget Office.

Kidney acquisition costs

The estimated net expenses associated with kidney acquisition in certified renal transplantation centers are excluded from the prospective payment system and paid on a reasonable cost basis.

Anesthesia services of hospital-employed nonphysician anesthetists

Public Law 98–21 excluded the costs of anesthesia services provided by qualified nonphysician anesthetists or certified registered nurse anesthetists (CRNAs) employed by the hospital or obtained under contract, from the prospective payment system and provided for payments on the basis of reasonable costs for cost reporting periods beginning on or after October 1, 1984, and before October 1, 1987.

Public Law 99–509 extended current payment provisions for the services of hospital-employed CRNAs for services rendered through December 31, 1988. The legislation authorized direct reimbursement to a CRNA under Part B of Medicare for anesthesia services and related care which he or she is legally authorized to perform in the State where the services are provided. These payments are to be made equal to the lower of 80 percent of actual charges or 80 percent of a fee schedule amount established by the Secretary on a budget neutral basis. CRNAs are required to accept Medicare's determination of the allowable amount (Medicare's payment plus the patient's 20 percent copayment amount) as payment-in-full for all Medicare services. The fee schedule applies to services provided on or after January 1, 1989. Special limits on the actual charges of nonparticipating physicians for CRNA services and medical direction apply.

Bad debts of Medicare beneficiaries

An additional payment is made to hospitals for bad debts attributable to unpaid deductible and copayment amounts related to covered services received by Medicare beneficiaries.

Public Law 100-203 prohibited the Secretary from making any change in the policy that was in effect on August 1, 1987, regarding payments to hospitals for bad debts of Medicare beneficiaries.

Public Law 100-647 clarified that the prohibition applies to changes in documentation requirements, as well as in other policies.

SPECIAL TREATMENT OF CERTAIN FACILITIES

Certain exceptions and adjustments to the prospective payment rates are provided as follows:

Sole community hospitals

Sole community hospitals (SCHs), are hospitals that (by reason of factors such as isolated location, weather conditions, travel conditions, or absence of other hospitals nearby) provide the only source of inpatient services reasonably available in a geographic area. Public Law 98-21 requires the Secretary to determine the DRG payment rates for these hospitals on the same basis used to pay all hospitals during the first year of the transition period: the SCH's base payment amount per discharge is equal to 75 percent of the hospital specific amount plus 25 percent of the Federal regional amount. The legislation also requires the Secretary to adjust the PPS payment rates for an SCH, for a cost reporting period beginning on or after October 1, 1983, but before October 1, 1986, if the hospital experiences a decrease of more than 5 percent in its total volume of discharges, due to circumstances beyond its control. The amount of the payment adjustment must fully compensate the hospital for the fixed costs it incurs in providing inpatient services, including reasonable costs of maintaining necessary core staff and services.

Public Law 99-509 extended the period of eligibility for a payment adjustment for a decrease in volume of discharges, until October 1, 1988; OBRA87 extended the period to October 1, 1990. OBRA87 also provides that, effective October 1, 1987, a hospital may receive this payment adjustment if it meets the sole community hospital criteria, but is not being paid as a sole community hospital. The total amount of additional payments to hospitals which qualify under the last provision, is limited to $5 million in fiscal year 1988 and $10 million in fiscal year 1989.

For cost reporting periods beginning on or after October 1, 1983, and before October 1, 1989, Public Law 99-272 provided that an

SCH experiencing an increase in operating costs due to the addition of new inpatient facilities or services will receive an adjustment to its hospital specific amount for such costs. As of September 1988, 323 hospitals were classified as sole community providers.

Cancer hospitals

The Secretary is authorized to provide for exceptions and adjustments to the prospective payment amounts appropriate for hospitals involved extensively in treatment for and research on cancer. The regulations define a cancer hospital as one which: (1) was recognized by the National Cancer Institute as a comprehensive cancer center or a clinical cancer research center as of April 20, 1983, (2) demonstrates that the entire facility is organized primarily for treatment of and research on cancer, and (3) has a patient population such that at least 50 percent of the hospital's total discharges have a principal diagnosis that reflects a finding of neoplastic disease. Cancer hospitals meeting these criteria may elect to be paid on a reasonable cost basis, subject to TEFRA limits. As of June 1986, six hospitals had been designated as cancer hospitals.

Referral centers

The Secretary is authorized to provide exceptions and adjustments as appropriate for regional and national referral centers. These centers are defined as:

(1) rural hospitals having 500 or more beds;

(2) hospitals having at least 50 percent of their Medicare patients referred from other hospitals or from physicians not on the hospital's staff, at least 60 percent of their Medicare patients residing more than 25 miles from the hospital, and at least 60 percent of the services furnished to Medicare beneficiaries are furnished to those who live 25 miles or more from the hospital; or

(3) rural hospitals meeting the following criteria for hospital cost reporting periods beginning on or after October 1, 1985.

(a) a case mix index equal to or greater than the median case mix for all urban hospitals (the national standard), or the median case mix for urban hospitals located in the same census region, excluding hospitals with approved teaching programs. (The case mix index is a measure of the relative costliness of the hospital's mixture of cases among the DRGs compared to the national average mixture of medicare cases);

(b) a minimum of 5,000 discharges, the national discharge criterion (3,000 in the case of osteopathic hospitals), or the median number of discharges in urban hospitals for the region in which the hospital is located; and

(c) at least one of the following three criteria: more than 50 percent of the hospital's medical staff are specialists, at least 60 percent of discharges are for inpatients who reside more than 25 miles from the hospital, or at least 40 percent of inpatients treated at the hospital have been referred either from physicians not on the hospital's staff or from other hospitals.

Referral centers are paid prospective payments based on the applicable urban payment amount rather than the rural payment amount, as adjusted by the hospital's area wage index.

Under the regulations, once a hospital has achieved referral center status, it is paid at the applicable urban rate for a 3-year period. Public Law 99-509 permitted hospitals designated as regional referral centers, as of the date of enactment, to continue their designation for 3 additional years. As of September 1988, 220 hospitals were qualified as referral centers.

Public Law 100-203 reduced the minimum number of beds criterion for hospitals located in a rural area, from 500 to 275, effective for discharges occurring on or after April 1, 1988. The legislation also requires the Secretary to study and report to Congress, by May 1, 1989, on (1) the referral center criteria, including, for hospitals currently designated as referral centers, the relationship of their PPS payments to their costs of inpatient care, and the appropriateness of payment on the basis of some rate other than the urban rate, and; (2) recommendations regarding criteria to be used in designating referral centers for cost reporting periods beginning on or after October 1, 1989.

Hospitals in rural counties treated as urban counties

Hospitals in areas that are reclassified from urban to rural under OMB's MSA system are allowed a 2-year transition period during which they are paid a blend of the applicable urban and rural rates.

Public Law 100-203 provided that certain rural counties bordering a Metropolitan Statistical Area (MSA) may be treated as part of that area for the purpose of Medicare hospital reimbursement (but for no other purpose) if they meet certain conditions. An eligible county is one that (a) would have been included in an urban area but for the fact that it failed to meet commuting pattern standards used by OMB in establishing MSAs, and (b) meets less stringent commuting standards specified by the act. As modified by Public Law 100-360, the provision applies only to counties that are adjacent to two or more MSAs and that would be considered as urban under OMB rules if commuters between the county and the central counties of all the adjacent urban areas were counted. As of November 1988, 39 counties had been determined to qualify for the special treatment. The shift of these counties from rural to urban status potentially requires a recomputation of the wage index values, both for the MSA into which the county is moved and for the remaining rural areas in the State. Public Law 100-647 requires adjustments to ensure that, for discharges during fiscal years 1990 and 1991, no other area suffers a reduced wage index because of the shifting of one of these counties. The Secretary is required to report to Congress by January 1989 on possible ways of reducing the adverse impact on wage index values during fiscal year 1989.

Section 602k Hospitals

Prior to Public Law 98-21, payments for nonphysician services (in such areas as radiology, laboratory, physical therapy, prosthetics) provided to Medicare beneficiaries who were hospital inpatients were made either (1) to the hospital under part A of Medicare on a reasonable cost basis or (2) to an outside supplier of the service under part B of Medicare on the basis of reasonable charges. The practice of billing under part B for services provided to hospital inpatients is known as the "unbundling" of part A services.

Public Law 98-21 provided that, effective October 1, 1983, for all hospitals participating in the Medicare program (including those under prospective payment, excluded hospitals, and those paid under State cost control systems), all nonphysician services provided to hospital inpatients will be paid only as hospital services under the part A program. The Secretary has authority to waive this requirement during the transition period to allow billing under part B for hospitals that had such extensive billings under part B prior to October 1, 1982, that compliance with the new requirement would threaten the stability of patient care (commonly referred to as 602k hospitals). As of December 1985, there were four 602k hospitals.

(One other exception to the prohibition of "unbundling," the pre-1989 treatment of nonphysician anesthetists, was discussed earlier.)

HOSPITALS EXCLUDED FROM THE PROSPECTIVE PAYMENT SYSTEM

The following hospitals are by law excluded from the prospective payment system and are paid on the basis of reasonable costs, subject to the TEFRA rate of increase limits: psychiatric hospitals, rehabilitation hospitals, psychiatric or rehabilitation units which are distinct parts of a hospital, alcohol and drug abuse hospitals and such distinct units of hospitals (for cost reporting periods beginning before October 1, 1987), children's hospitals (with patients averaging under 18 years of age), long-term hospitals (with an average inpatient length of stay greater than 25 days), and hospitals outside the 50 States and the District of Columbia. Public Law 99-509 provided that hospitals located in Puerto Rico will be included in PPS, specially adjusted for Puerto Rico, effective with discharges occurring on or after October 1, 1987. In addition, there are special cases where the prospective payment system is not applied, such as for emergency services provided to Medicare beneficiaries in hospitals not participating in Medicare and Veterans' Administration hospital services provided to Medicare beneficiaries.

Hospitals reimbursed under approved State cost control systems are also excluded from the prospective rates.

Section 1886(c) of the Social Security Act (as added by TEFRA) gave the HHS Secretary discretion to reimburse hospitals in a State according to the State's hospital reimbursement control system rather than according to Medicare's reimbursement methods if the State requests this change and if HHS determines that the State system meets certain requirements. Currently one State has a waiver to operate its own system: Maryland.

Public Laws 98-21 and 98-369 added several more requirements for State systems. According to final regulations published by HHS on April 24, 1986 (51 F.R. 15481), implementing these legislative changes, HHS has the discretion to allow Medicare hospital reimbursement to be made in accordance with a State reimbursement control system if the chief executive officer of the State requests approval of the State system, and provided that the State system:

(a) Applies to substantially all non-federal acute care hospitals in the State.

(b) Applies to at least 75 percent of all inpatient revenues or expenses for the State.

(c) Provides assurances that payers, hospital employees and patients in the State will be treated equitably under its system.

(d) Provides assurances that its system will not result in greater Medicare expenditures over 36-month periods.

(e) Does not preclude health maintenance organizations (HMOs) or competitive medical plans (CMPs) from negotiating directly with hospitals concerning payment for inpatient services.

(f) Limits hospital charges to Medicare beneficiaries to deductibles, coinsurance, and services for which the beneficiary would not be entitled to have payment made under Medicare Part A; and prohibits payment under Part B of Medicare for nonphysician services provided to hospital inpatients unless this prohibition is waived.

HHS must approve any State system which meets the above six requirements and also the following requirements. The State system must:

(g) Be operated directly by the State or an entity designated by State law.

(h) Use a payment methodology to be applied prospectively.

(i) Provide for hospital reports, as required by the Secretary.

(j) Provide satisfactory assurances that it will not result in admission practices that will reduce treatment to uninsured, low income, high cost, or emergency patients.

(k) Not materially reduce payments without 60 days notice to the Secretary and to affected hospitals.

(l) Provide satisfactory assurance that, in developing its system, the State has consulted with local officials concerning the impact on public hospitals.

Special provisions apply to States that have existing demonstration projects approved by HCFA under section 402 of the Social Security Amendments of 1967 or section 222(a) of the Social Security Amendment of 1972 for the operation of State reimbursement control systems. HHS approval of a State's application to continue the operation of a system upon expiration of the demonstration project is mandatory if, and for so long as, the system meets the minimum requirements described in items (a) through (f) above.

ADMINISTRATION

Prospective Payment Assessment Commission

Public Law 98-21 required the Director of the Congressional Office of Technology Assessment (OTA) to appoint by April 1, 1984, a commission of 15 independent experts, known as the Prospective Payment Assessment Commission (ProPAC). Public Law 99-272 added two members to ProPAC, bringing the total to 17 members.

ProPAC is required to review the percentage increase used to update the DRG payment rates for fiscal years 1984 and 1985. It is required to make recommendations, in a report due by April 1, to the Secretary on the appropriate percentage change beginning with fiscal year 1986. This report is due by March 1, beginning with recommendations for fiscal year 1989. In addition, the Commission must: (1) consult with and make recommendations to the Secretary on the need for adjustments to the DRG classifications, the methodology for classifying specific hospital discharges within the DRGs, and weighting factors for the DRGs; [2] and (2) report to Congress its evaluation of any adjustments which the Secretary makes.[3]

Each year, ProPAC also submits a report to Congress which provides background information on trends in health care delivery and financing, including the impact of the prospective payment system on providers and beneficiaries. Prior to 1988, this report to Congress was submitted in February each year. Because the Commission's report and recommendations to the Secretary is due earlier, however, the report to Congress has been rescheduled for June 1, each year.[4]

Administrative and judicial review

Administrative and judicial appeals are allowed under procedures and authorities already established under the Medicare program. However, the law precludes administrative and judicial review of: (1) the "budget neutrality" adjustment (see above), and (2) the DRG payment amounts, including the establishment of DRG's, the methodology for classifying discharges within DRG's, and the DRG weighting factors.

Review activities

Public Law 97-248, the Tax Equity and Fiscal Responsibility Act of 1982 (known as TEFRA) replaced the existing Professional Standards Review Organization (PSRO) program with the utilization and quality control peer review program. The Secretary of the Department of Health and Human Services was required to enter into performance-based contracts with physician-sponsored or physician-access organizations known as Peer Review Organizations (PRO's) by November 15, 1984. As a condition of receiving payments under the prospective payment system, hospitals are required to enter an agreement with a PRO under which the PRO will review the validity of diagnostic and procedural information provided by the hospitals; the completeness, adequacy and quality of care provided; and the appropriateness of admissions patterns, discharges, lengths of stay, transfers, and services furnished in outlier cases.

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[2] See Prospective Payment Assessment Commission. Report and Recommendation to the Secretary, U.S. Department of Health and Human Services, March 1, 1988.

[3] See Prospective Payment Assessment Commission, 1989 Adjustments to the Medicare Prospective Payment System. Report to Congress, November 1988.

[4] See Prospective Payment Assessment Commission, Medicare Prospective Payment and the American Health Care System. Report to Congress, June 1988.

HISTORICAL TRENDS IN PPS PAYMENTS AND HOSPITAL MEDICARE COST, REVENUE AND UTILIZATION

Trends in PPS costs, revenue, and margins

Medicare inpatient operating cost per case rose about 10 percent per year for the second through fourth years of PPS—more than 6 percentage points per year above the PPS market basket. During the first year of PPS, cost per case increases were limited to about 2 percent, more than 2.5 percentage points below the market basket (see table 10).

PPS revenue per case increases were substantial during the first 2 years of PPS, but declined dramatically in the next 2 years. In each year, per case revenue increases were greater than the PPS market basket. PPS revenue has also grown faster than the update factor, primarily because of increased frequency of higher-weighted DRGs. This phenomenon had its greatest impact early in PPS, but it continues to be a source of additional revenue under PPS.

Total PPS revenue has increased far less than revenue per case, because Medicare admissions have declined. American Hospital Association (AHA) data indicate that admissions of the elderly are no longer declining, however.

In the following tables, PPS1, PPS2, PPS3, and PPS4 indicate the first through fourth year of the prospective payment system, respectively. Hospitals were phased into the prospective payment system beginning October 1, 1983, or whenever the hospital's accounting or fiscal year began. Thus PPS1 is the first year of the prospective payment system for each individual hospital and generally covers Federal fiscal years 1984 and 1985.

TABLE 10.—PERCENT CHANGE IN AGGREGATE MEDICARE OPERATING COSTS, CASES AND PPS REVENUE FOR THE FIRST 4 YEARS OF PPS

Year	Total Medicare operating costs	PPS revenue	Cases	Medicare operating costs per case	PPS revenue per case	PPS market basket [1]	PPS update factor
TEFRA to PPS1	−4.4	11.0	−6.4	2.2	18.7	4.9	4.7
PPS1 to PPS2	4.0	4.1	−5.8	10.4	10.5	4.1	4.5
PPS2 to PPS3	6.6	−.2	−3.0	9.9	3.3	3.1	.5
PPS3 to PPS4	7.4	1.4	2.4	10.0	3.8	3.5	1.15
Cumulative effect:							
TEFRA to PPS1				2.2	18.7	4.9	4.7
to PPS2				12.8	31.2	9.2	9.4
to PPS3				24.0	35.5	12.6	10.0
to PPS4				36.4	40.6	16.5	11.2

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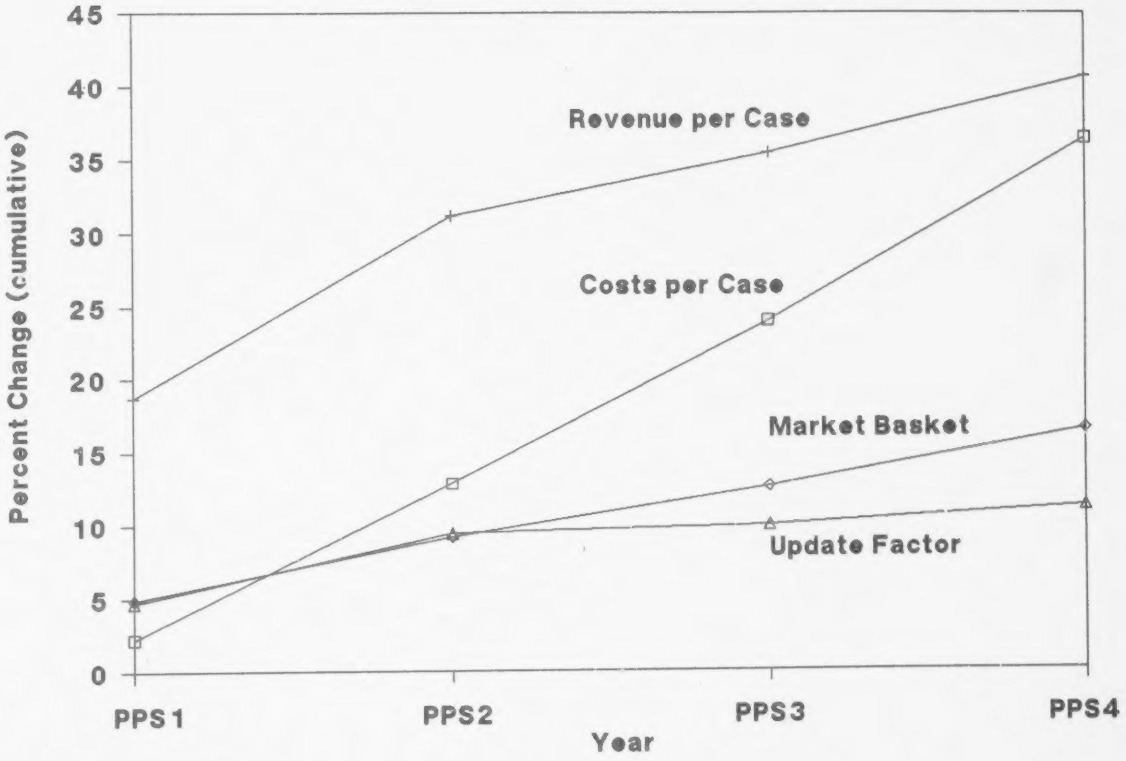
[1] Market basket and update factors are for Federal fiscal years 1984 through 1987, whereas cost and revenue data are for hospital accounting years beginning during those Federal fiscal years. The update factor for fiscal year 1984 is the statutory adjustment required to set the initial PPS rates of market basket plus 1, adjusted for budget neutrality. The 0.5 percent update factor for fiscal year 1986 did not take effect until 7 months into the hospital accounting year.

Source: Preliminary ProPAC estimates based on Medicare Cost Report data for 4 separate 2-year hospital cohorts. Excludes hospitals in Maryland, New Jersey, Massachusetts and New York.

CHART 1. Cumulative PPS Cost and Payment Trends
Percent Change First Four Years



Source: ProPAC, 1989.

TABLE 11.—AGGREGATE PPS OPERATING MARGINS FOR THE FIRST 4 YEARS OF PPS

	PPS1	PPS2	PPS3	PPS4
PPS revenue per case [1]	$3,518	$3,908	$4,052	(3)
Medicare operating costs per case [1]	$3,016	$3,353	$3,683	(3)
PPS margin (percent) [2]	14.3	14.2	9.1	4.5
Urban (percent)	15.5	15.2	10.0	5.6
Rural (percent)	8.0	8.5	4.3	—.6

[1] Rates of change in costs and revenues should not be computed using these data, because hospital samples differ for each year.

[2] PPS margins are defined as (PPS revenue minus Medicare operating costs) divided by PPS revenue. PPS revenue does not include passthroughs. If New York and Massachusetts hospitals are included, the PPS3 margin is 9.6 percent—10.4 percent for urban and 4.3 percent for rural hospitals. PPS4 differences are likely to be similar.

[3] Comparable levels of costs and revenue cannot be computed using partial PPS4 data. PPS4 margins are based on cost reports for 2,717 hospitals, compared with 4,557 hospitals for PPS3.

Source: Preliminary ProPAC estimates based on Medicare Cost Report data. Excludes hospitals in Maryland, New Jersey, Massachusetts, and New York.

The overall PPS margin was above 14 percent in the first 2 years of PPS, falling to 9.1 percent in the third year. PPS margins are defined as PPS revenue less Medicare operating costs divided by PPS revenue. Partial data indicate a fourth-year PPS margin of 4.5 percent. Almost half of the hospitals incurred losses under PPS in this year (see tables 11 and 12). These margin trend data exclude hospitals in New York and Massachusetts, which did not enter PPS until the third year of the system. Hospitals in these States had an average margin that is substantially higher than the average for other hospitals. As a result, the overall third-year PPS margin including hospitals in New York and Massachusetts is 9.6 percent—0.5 percentage points higher than the margin excluding them.

PPS margins do not represent the bottom line for the hospital industry, which includes expenses and revenue related to other payers. Overall hospital inpatient operating margins increased steadily from the early 1970s to the early 1980s, peaked in 1984, and declined since then. Based on AHA data for the first 8 months of the year, the total margin for 1988 is expected to be about 4.7 percent—the same as for 1987. The 1988 AHA patient margin would be slightly less than 0.1 percent—a drop from 0.2 percent in 1987. AHA patient margins are always lower than total margins because they exclude nonpatient sources of revenue such as charitable donations, while counting all expenses.

TABLE 12.—PERCENTILE DISTRIBUTION OF PPS OPERATING MARGINS AND PERCENT OF HOSPITALS WITH NEGATIVE MARGINS FOR THE FIRST 4 YEARS OF PPS

	PPS1	PPS2	PPS3	PPS4
10th percentile	−8.0	−8.7	−19.0	−24.3
25th percentile	2.4	2.2	−4.8	−9.5
Median	11.0	10.6	5.1	1.6
75th percentile	17.5	17.9	13.2	10.2
90th percentile	23.3	24.3	20.2	17.8
Percent with negative margin	19.0	19.7	33.6	46.0

Source: Preliminary ProPAC estimates based on Medicare Cost Report data. Excludes hospitals in Maryland, NewJersey, Massachusetts, and New York.

Margins by hospital type.—PPS margins vary by hospital type (see table 13). During the first 3 years of PPS, urban hospitals had substantially higher margins than rural hospitals. Within both categories, margins increased with bed size. The urban/rural margin differential is likely to be much smaller currently, because policy changes in recent years have increased payments to rural hospitals relative to urban hospitals. Major teaching hospitals and rural referral centers had relatively high margins during the first 3 years of PPS.

During the third year of PPS, the 10 percent of all hospitals with the highest margins were predominantly teaching and located in urban areas (see table 14). In contrast, hospitals with the lowest margins tended to be small and located in rural areas. About 9 percent of hospitals had negative PPS operating margins during each of the first 3 years of PPS. The majority of these hospitals were also small hospitals in rural areas.

TABLE 13.—COMPARISON OF PPS OPERATING MARGINS FOR THE FIRST 3 YEARS OF PPS, BY HOSPITAL TYPE

	PPS1	PPS2	PPS3
All hospitals	14.7	14.1	9.1
Urban	16.0	15.2	10.0
Rural	8.3	8.7	4.3
MSA > 1 million	16.8	14.6	9.6
Other urban	15.1	15.9	10.4
Rural referral	8.6	14.8	13.2
Sole community	6.2	6.9	1.3
Other rural	8.5	6.9	.1
Major teaching	19.8	21.5	16.2
Other teaching	17.0	16.3	11.2
Nonteaching	12.4	11.5	6.1
Disproportionate share:			
MSA > 1 million	16.4	14.5	10.7
Other urban	14.9	16.4	11.5
Rural	11.2	10.9	6.0
Nondisproportionate share	14.3	13.6	8.2
New England	13.0	13.1	8.4
Middle Atlantic	16.0	15.9	10.1
South Atlantic	12.9	12.6	5.9
East North Central	15.1	14.8	11.0
East South Central	10.2	11.4	6.5
West North Central	15.9	15.6	12.6
West South Central	16.7	14.0	8.6
Mountain	13.4	14.8	11.9
Pacific	15.4	14.0	8.3
Urban < 100 beds	13.7	13.7	6.5
Urban 100–249 beds	15.0	13.6	7.7
Urban 250–404 beds	15.2	13.6	8.9
Urban 405–684 beds	16.8	17.2	11.9
Urban 685+ beds	20.8	20.1	15.8
Rural < 50 beds	6.3	5.8	−1.3
Rural 50–99 beds	9.3	8.4	1.9
Rural 100–169 beds	8.4	8.4	2.3
Rural 170+ beds	8.2	10.8	10.9
Voluntary	15.2	14.8	10.0
Proprietary	14.7	12.8	6.6
Urban government	14.8	14.6	8.6
Rural government	7.0	6.3	4.5

Source: ProPAC estimates using Medicare Cost Report data. Excludes hospitals in Maryland, Massachusetts, New Jersey and New York.

TABLE 14.—PPS OPERATING MARGINS: DISTRIBUTION OF HOSPITALS IN THE TOP AND BOTTOM 10 PERCENT (PPS3) AND HOSPITALS WITH NEGATIVE MARGINS (PPS1, PPS2, AND PPS3)

[In percent] [1]

Hospital type	PPS3			PPS1, PPS2, and PPS3 negative margins in all 3 years
	All hospitals	Top 10 percent margins	Bottom 10 percent margins	
Percent of all hospitals	100.0	10.0	10.0	8.7
Urban	48.6	62.7	21.4	16.7
Rural	51.4	37.3	78.6	83.3
MSA > 1 million	24.1	30.2	13.3	7.6
Other urban	24.5	32.5	8.2	9.0
Rural referral	3.1	2.5	0	1.0
Sole community	5.8	5.8	8.7	10.8
Other rural	42.5	28.9	69.9	71.5
Major teaching	2.4	6.1	.8	0
Other teaching	14.3	17.3	3.6	2.1
Non-teaching	83.3	76.7	95.7	97.9
Disproportionate share:				
MSA > 1 million	8.2	10.9	4.3	2.8
Other urban	8.5	12.9	1.8	3.1
Rural	4.5	6.9	5.1	4.5
Non-disproportionate share	78.9	69.3	88.8	89.6
New England	3.0	2.0	1.8	1.7
Middle Atlantic	3.3	3.6	1.0	.4
South Atlantic	13.2	10.4	12.8	12.2
East North Central	19.4	15.7	9.7	11.5
East South Central	9.4	8.4	5.6	5.9
West North Central	16.1	16.8	21.2	21.5
West South Central	16.9	18.0	32.4	28.5
Mountain	6.1	10.4	6.4	8.0
Pacific	12.5	14.7	9.2	10.4
Urban < 100 beds	12.1	22.6	12.2	10.4
Urban 100–249 beds	19.0	20.3	7.7	5.2
Urban 250–404 beds	10.7	10.4	.8	1.0
Urban 405–684 beds	5.7	6.9	.5	0
Urban 685+ beds	1.0	2.5	.3	0
Rural < 50 beds	24.4	24.9	58.7	54.5
Rural 50–99 beds	15.7	6.9	14.8	18.8
Rural 100–169 beds	7.5	3.3	4.6	7.6
Rural 170+ beds	3.8	2.3	.5	2.4

TABLE 14.—PPS OPERATING MARGINS: DISTRIBUTION OF HOSPITALS IN THE TOP AND BOTTOM 10 PERCENT (PPS3) AND HOSPITALS WITH NEGATIVE MARGINS (PPS1, PPS2, AND PPS3)—Continued

[In percent] [1]

Hospital type	PPS3			PPS1, PPS2, PPS3
	All hospitals	Top 10 percent margins	Bottom 10 percent margins	Negative margins in all 3 years
Voluntary	54.8	54.6	35.8	35.5
Proprietary	14.3	19.4	13.6	11.1
Urban government	7.5	10.2	4.6	3.8
Rural government	23.3	15.8	46.0	49.5

[1] Excludes hospitals in Maryland, Massachusetts, New Jersey, and New York. Columns may not sum to 100 due to rounding.

Source: ProPAC estimates based on Medicare Cost Report data from the U.S. Department of Health and Human Services, Health Care Financing Administration, for a cohort of 3,321 hospitals.

Distribution of PPS hospitals, cases, and payments

Tables 15 through 17 show the distribution of PPS hospitals, cases, and PPS payments.

While slightly less than half of the PPS hospitals are designated as rural, these hospitals account for only 23 percent of Medicare inpatient stays and only 15 percent of PPS payments. Moreover, rural hospitals with fewer than 50 beds comprise 23 percent of PPS hospitals, but only 4 percent of the discharges and 2 percent of total payments.

At the other extreme, the 27 percent of PPS hospitals that are located in large metropolitan areas account for 40 percent of all Medicare discharges and almost half of total PPS payments. The 3 percent of hospitals classified as major teaching (those with a ratio of residents to beds of .25 or more) treat about 8 percent of Medicare inpatients and receive 13 percent of all PPS payments.

About 5 percent of all PPS payments are made under the indirect teaching adjustment, estimated to total about $2.2 billion in fiscal year 1989. Disproportionate share payments account for about 2.4 percent or $1.1 billion of total PPS payments. Outlier payments represent about 5.7 percent or $2.6 billion in PPS payments. Hospitals receiving teaching and disproportionate share adjustments overlap considerably. Sixty percent of teaching payments go to hospitals that receive disproportionate share adjustments. Similarly, 71 percent of the disproportionate share payments go to teaching hospitals.

TABLE 15.—PERCENTAGE DISTRIBUTION OF HOSPITALS, DISCHARGES, AND PPS PAYMENTS, BY HOSPITAL TYPE [1]

	Hospitals	Medicare cases	Total PPS payments	Teaching payments	Disproportionate share	Outlier payments
All hospitals	100	100	100	100	100	100
Urban [2]	53	77	85	98	99	93
Rural [2]	47	23	15	2	1	7
MSA > 1 million	27	40	48	68	60	56
Other urban	27	38	38	30	38	37
Sole community	5	2	1	(3)	(3)	(3)
Rural referral	4	6	5	2	(3)	3
Other rural	38	15	9	(3)	1	4
Major teaching	3	8	13	56	35	19
Other teaching	16	33	37	44	36	41
Nonteaching	81	59	50	0	30	40
Disproportionate share:						
MSA > 1 million	9	14	19	41	60	26
Other Urban	9	15	16	19	38	18
Rural	4	2	1	(3)	1	(3)
Nondisproportionate share	78	70	64	39	0	56
New England	4	6	6	10	2	10
Middle Atlantic	8	14	17	30	28	29
South Atlantic	14	17	15	11	14	14
East North Central	15	18	18	22	14	14
East South Central	9	9	7	4	8	5
West North Central	14	9	8	6	4	5
West South Central	15	11	10	5	10	8
Mountain	7	4	4	2	1	3
Pacific	12	12	15	10	19	11
Puerto Rico	1	1	(3)	(3)	(3)	(3)
Urban < 100 beds	15	6	5	3	4	5
Urban 100–249 beds	20	22	22	8	24	19
Urban 250–404 beds	11	24	25	20	27	26
Urban 405–684 beds	6	20	24	42	30	29
Urban 685+ beds	1	6	9	25	14	14
Rural < 50 beds	23	4	2	(3)	(3)	(3)
Rural 50–99 beds	14	6	4	(3)	1	1
Rural 100–169 beds	7	6	4	(3)	(3)	2
Rural 170+ beds	3	6	5	2	(3)	4
Voluntary	55	71	74	77	66	76
Proprietary	15	11	10	2	8	9
Urban government	8	10	11	20	25	13
Rural government	22	8	5	(3)	1	2

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[1] PPS payments simulated using fiscal year 1989 policy rules, including changes resulting from implementation of Medicare Catastrophic Coverage Act of 1988, P.L. 100–360.

[2] Urban row includes hospitals located outside MSAs that receive urban payment rate.

[3] Less than 0.5 percent.

Note: Columns may not add to 100 due to rounding.

Source: ProPAC estimates based on data from the Health Care Financing Administration.

TABLE 16.—PERCENTAGE DISTRIBUTION OF PPS PAYMENTS UNDER FISCAL YEAR 1989 RULES, BY PAYMENT TYPE [1]

	Total	Basic	Teaching	Disproportionate share	Outliers
All hospitals	100.0	87.0	4.8	2.4	5.7
Urban [2]	100.0	85.4	5.6	2.8	6.2
Rural [2]	100.0	96.4	.6	.2	2.8
MSA > 1 million	100.0	83.3	7.0	3.1	6.7
Other urban	100.0	88.2	3.8	2.5	5.5
Sole community	100.0	99.4	.0	.1	.5
Rural referral	100.0	94.4	1.8	.1	3.6
Other rural	100.0	97.0	.1	.3	2.6
Major teaching	100.0	65.2	20.4	6.3	8.1
Other teaching	100.0	85.6	5.8	2.4	6.3
Nonteaching	100.0	94.0	.0	1.5	4.5
Disproportionate share:					
MSA > 1 million	100.0	74.1	10.5	7.7	7.7
Other urban	100.0	81.8	5.9	5.9	6.4
Rural	100.0	94.4	.0	3.7	1.8
Nondisproportionate share	100.0	92.1	3.0	.0	5.0
New England	100.0	82.3	7.8	.9	9.1
Middle Atlantic	100.0	77.6	8.5	4.0	9.9
South Atlantic	100.0	88.9	3.4	2.3	5.4
East North Central	100.0	88.1	5.9	1.8	4.2
East South Central	100.0	90.5	2.5	2.7	4.3
West North Central	100.0	91.4	3.8	1.2	3.6
West South Central	100.0	90.0	2.6	2.6	4.7
Mountain	100.0	92.8	2.5	.8	3.9
Pacific	100.0	89.1	3.2	3.3	4.4
Puerto Rico	100.0	91.8	2.9	1.6	3.6
Urban < 100 beds	100.0	90.3	2.8	1.7	5.1
Urban 100–249 beds	100.0	90.4	1.8	2.8	5.0
Urban 250–404 beds	100.0	87.8	3.8	2.6	5.8
Urban 405–684 beds	100.0	81.5	8.5	3.0	6.9
Urban 685+ beds	100.0	74.4	13.1	3.6	8.9
Rural < 50 beds	100.0	98.2	.1	.4	1.3
Rural 50–99 beds	100.0	98.0	.1	.3	1.6
Rural 10–169 beds	100.0	97.1	.1	.2	2.6
Rural 170+ beds	100.0	93.3	2.0	.1	4.7
Voluntary	100.0	87.1	4.9	2.1	5.8
Proprietary	100.0	92.5	0.9	1.8	4.9
Urban government	100.0	79.7	8.6	5.4	6.3
Rural government	100.0	97.1	.3	.4	2.2

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[1] PPS payments simulated using fiscal year 1989 policy rules, including changes resulting from implementation of the Medicare Catastrophic Coverage Act of 1988, P.L. 100–360. Teaching and disproportionate share percentages include adjustments to outliers.

[2] Urban row includes hospitals located outside MSAs that receive urban payment rate.

Source: Preliminary ProPAC estimates based on data from the Health Care Financing Administration.

TABLE 17.—ESTIMATED PPS PAYMENTS [1] TO HOSPITALS, BY PAYMENT TYPE

[Dollars in billions]

	1989 share (percent)	Fiscal year—					
		1989	1990	1991	1992	1993	1994
Total PPS payment to hospitals	100.0	$45.0	$50.1	$55.4	$60.9	$66.6	$72.3
Basic payments	87.0	39.2	43.5	48.1	52.9	57.8	62.8
Indirect teaching payments	4.9	2.2	2.5	2.7	3.0	3.3	3.6
Disproportionate share payments	2.4	1.1	1.2	1.4	1.5	1.6	1.8
Outlier payments [2]	5.7	2.6	2.9	3.2	3.5	3.8	4.2
Less beneficiary copayments		−4.0	−3.8	−4.2	−4.6	−5.0	−5.3
Net payments from Medicare		41.0	46.3	51.2	56.3	61.6	67.0

[1] PPS payments estimated by applying fiscal year 1989 payment rules to fiscal year 1987 patient bills. Includes effects of implementing the Medicare Catastrophic Coverage Act of 1988, P.L. 100–360.

[2] Outlier payments due to the indirect medical education adjustment are included in indirect teaching payments; outlier payments due to the disproportionate share adjustment are included in disproportionate share payments.

Source: CBO and ProPAC estimates based on data from the Health Care Financing Administration.

Effects of policy changes on PPS payments

Since the implementation of PPS, the distribution of Medicare payments to hospitals has been altered. Some redistribution has resulted from changes in hospital behavior, but much of it is attributable to policy decisions. These include the transition to national average rates, reductions in teaching hospital payments, the addition of a disproportionate share adjustment, and separate update factors for rural hospitals, hospitals in large urban areas, and other urban hospitals.

The update factor and other policy decisions through the first 5 years of PPS (through fiscal year 1988) increased per-case PPS payments by about 11.0 percent (see table 18). Over half this increase occurred between the first and second years of PPS. During the 5-year period, the PPS market basket rose 15.7 percent, and the PPS update factor increased 7.8 percent.

Policy decisions implemented through fiscal year 1988 have redistributed PPS Medicare payments toward rural hospitals, particularly rural referral centers. Urban hospitals located in Metropolitan Statistical Areas (MSAs) with fewer than 1 million people, smaller hospitals, and nonteaching hospitals have also benefited from policy decisions relative to other hospitals. Alternatively, larger hospitals, especially those in large urban areas and major teaching hospitals, received relatively small per-case payment increases from policy decisions.

Policy decisions tended to benefit hospitals with the least gain in payment from DRG case-mix change. For example, with case-mix change included, payments for urban hospitals grew faster than payments for rural hospitals—a reversal of the pattern seen when only policy decisions are considered.

TABLE 18.—EFFECTS OF PPS UPDATE FACTORS AND OTHER POLICIES ON PER-CASE PPS PAYMENTS TO HOSPITALS

[In percent change] [1]

Hospital type	Payment policy years					Total	Total with case-mix change [5]
	1984 [2]	1985	1986 [3]	1987	1988 [4]		
PPS market basket		4.1	2.9	3.4	4.5	15.7	....
PPS update factor		4.5	.5	1.15	1.5	7.8	....
All hospitals	.7	5.9	.9	.7	2.4	11.0	31.5
Urban	.9	5.9	1.0	.4	2.1	10.6	32.5
Rural	.1	5.5	.5	2.2	4.3	13.1	28.2
MSA >1 million	.0	4.8	.8	−.6	1.2	6.3	27.3
Other urban	1.9	7.3	1.3	1.7	3.1	16.1	39.1
Rural referral	−2.3	5.6	.5	1.8	3.2	8.8	21.3
Sole community	3.4	8.7	.9	2.4	3.4	20.1	37.8
Other rural	−.6	4.6	.3	2.3	4.7	11.6	26.1
Major teaching	1.9	7.2	−2.3	.2	1.3	8.4	33.6
Other teaching	.7	5.7	.8	.2	1.5	9.2	32.6
Non-teaching	.6	5.7	1.6	1.2	3.3	12.8	31.1
Disproportionate share:							
MSA > 1 million	−.5	4.2	1.8	−.3	2.7	8.0	28.6
Other urban	1.5	7.4	2.3	2.4	4.4	19.1	43.8
Rural	−1.5	3.6	1.1	1.2	2.4	6.9	18.9
Non-disproportionate share	.9	6.0	.4	.6	1.9	10.1	29.9
New England	2.7	7.5	.8	.8	2.0	14.5	34.1
Middle Atlantic	.8	6.3	−.9	1.9	5.6	14.3	30.8

TABLE 18.—EFFECTS OF PPS UPDATE FACTORS AND OTHER POLICIES ON PER-CASE PPS PAYMENTS TO HOSPITALS—Continued

[In percent change][1]

Hospital type	Payment policy years					Total	Total with case-mix change[5]
	1984[2]	1985	1986[3]	1987	1988[4]		
South Atlantic	1.5	6.8	.7	1.1	2.6	13.2	33.2
East North Central	1.4	5.9	.3	−.3	−1.2	6.1	23.0
East South Central	.1	6.7	1.1	1.8	5.8	16.4	34.0
West North Central	−.3	4.8	.2	.9	2.0	7.6	32.3
West South Central	−.2	5.5	.8	.6	2.4	9.4	35.0
Mountain	−.1	5.8	.1	1.1	2.7	9.8	31.6
Pacific	.4	4.7	3.6	−.4	2.3	11.1	31.2
Urban < 100 beds	2.3	7.9	2.1	2.4	4.5	20.6	37.8
Urban 100–249 beds	.6	5.6	1.9	.6	2.8	12.0	30.9
Urban 250–404 beds	.7	5.6	1.5	.2	2.0	10.4	31.4
Urban 405–684 beds	1.2	6.3	.3	.3	1.6	9.9	35.3
Urban 685+ beds	.6	5.7	−1.3	−.3	.3	5.0	33.2
Rural < 50 beds	1.6	7.3	1.1	4.5	7.6	24.0	35.8
Rural 50–99 beds	−.4	5.1	.7	2.7	5.5	14.1	27.9
Rural 100–169 beds	−.3	4.9	.6	1.9	4.0	11.6	27.1
Rural 170+ beds	.2	5.6	−.2	1.1	2.0	8.9	26.0
Voluntary	.6	5.7	.9	.4	1.9	9.9	30.9
Proprietary	.5	5.4	.8	.4	3.4	10.8	30.6
Urban government	2.5	7.8	1.2	1.6	3.9	18.1	39.9
Rural government	−.2	6.0	.6	3.4	5.1	15.8	30.8

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[1] Figures are not estimates of actual changes in fiscal year PPS hospital payments. Payments are simulated to isolate the effects of changes in PPS policies during the first 5 years of PPS. The effects on payment of changes in length of stay and volume are not included. Except for the last column, case-mix index change is also excluded. New York and Massachusetts are included in 1987 and 1988 columns only.

[2] 1984 column shows effects of changing from fully hospital-specific payments to first-year PPS blended rates. Other spects of the change from TEFRA to PPS, including the total increase in per-case payments, are not included.

[3] 1986 column simulates payments under a full year of COBRA policies, which did not take effect until May 1986. The 1.0 percent Gramm-Rudman payment reduction in effect from March 1, 1988 through September 30, 1986 is not included.

[4] 1988 column simulates a full year of OBRA 1987 policies, which did not take effect until April 1988. Also included is the teaching reduction, which will not actually be implemented until fiscal year 1989.

[5] The last column adjusts the total to include estimated case-weighted CMI change from 1983 to 1988, Variation in CMI change across hospital groups was measured from 1981 to 1988. An across-the-board adjustment was made for other years.

Source: ProPAC simulations based on data from the U.S. Department of Health and Human Services, Health Care Financing Administration.

The effects of fiscal year 1989 policy changes are shown in table 19. Payments to almost all groups will increase because of the update factor. Differences in payment changes across hospital groups result from the reduction in the teaching adjustment and changes in outlier payment policy among other factors.

TABLE 19.—COMPARISON OF PAYMENT PER CASE (FISCAL YEAR 1989 COMPARED TO FISCAL YEAR 1988)

	Number of Hospitals	Average fiscal year 1988 payment per case	Average fiscal year 1989 payment per case	Percentage change [1]
All hospitals	5,698	$4,300	$4,381	1.9
Urban by region:				
New England	187	4,922	4,950	0.6
Middle Atlantic	373	5,404	5,379	−.5
South Atlantic	434	4,303	4,370	1.6
East North Central	517	4,767	4,851	1.8
East South Central	176	4,101	4,144	1.0
West North Central	204	4,716	4,835	2.5
West South Central	384	4,298	4,449	3.5
Mountain	126	4,627	4,766	3.0
Pacific	526	5,348	5,496	2.8
Puerto Rico	52	1,824	1,858	1.8
Rural by region:				
New England	61	3,394	3,492	2.9
Middle Atlantic	102	3,127	3,216	2.9
South Atlantic	357	2,855	2,937	2.9
East North Central	368	2,888	3,014	4.4
East South Central	318	2,445	2,516	2.9
West North Central	599	2,669	2,752	3.1
West South Central	459	2,558	2,635	3.0
Mountain	274	2,956	3,049	3.1
Pacific	173	3,466	3,569	3.0
Puerto Rico	8	1,287	1,305	1.4
Large urban areas: (populations over 1 million)	1,511	5,175	5,258	1.6
Other Urban areas: (populations with 1 million or smaller)	1,468	4,317	4,388	1.7
Urban hospitals	2,979	4,758	4,836	1.6
0–99 beds	698	3,694	3,769	2.0
100–199 beds	766	4,113	4,177	1.6
200–299 beds	577	4,441	4,519	1.8
300–399 beds	610	4,816	4,893	1.6
400+ beds	271	5,648	5,737	1.6
Rural hospitals	2,719	2,798	2,888	3.2
0–49 beds	1,103	2,372	2,464	3.9
50–99 beds	863	2,541	2,643	4.0
100–149 beds	383	2,748	2,850	3.7
150–199 beds	154	3,001	3,085	2.8
200+ beds	158	3,303	3,367	1.9
Teaching status:				
Non-teaching	4,602	3,611	3,694	2.3
Resident/bed ratio less than 0.25	896	4,844	4,918	1.5
Resident/bed ratio 0.25 or greater	200	7,197	7,286	1.2

TABLE 19.—COMPARISON OF PAYMENT PER CASE (FISCAL YEAR 1989 COMPARED TO FISCAL YEAR 1988)—Continued

	Number of Hospitals	Average fiscal year 1988 payment per case	Average fiscal year 1989 payment per case	Percentage change [1]
Disproportionate share hospitals (DSH):				
Non-DSH	4,431	3,945	4,029	2.1
Urban DSH 100 beds or more	920	5,317	5,392	1.4
Urban DSH fewer than 100 beds	96	4,400	4,440	.9
Rural DSH	251	2,473	2,550	3.2
Urban teaching and DSH:				
Both teaching and DSH	499	5,893	5,963	1.2
Teaching only	520	4,951	5,035	1.7
DSH only	517	4,292	4,371	1.9
Nonteaching and non-DSH	1,443	4,053	4,129	1.9
Other special status (rural):				
Sole community hospitals	302	2,790	2,893	3.7
Rural referral centers (RRCs)	199	3,430	3,487	1.7
Both SCH and RRC	21	3,502	3,608	3.0
Type of ownership:				
Voluntary	3,058	4,468	4,545	1.7
Proprietary	952	3,842	3,902	1.6
Government	1,565	3,879	3,985	2.7

[1] The dollar amounts shown in this table are rounded to the nearest dollar. Therefore, percentage changes computed on the basis of these amounts will differ slightly from those displayed in this column as a result of rounding.

Source: Health Care Financing Administration. 53 F.R. 38637.

Trends in hospital utilization

Length of stay.—Before the implementation of PPS, length of stay (LOS) was generally decreasing. (Table 20) The introduction of PPS accelerated this decline, producing a dramatic and measurable change in patient care. In the past 3 years, however, LOS increased slightly and appears to have stabilized. This may mean that hospitals have reached the limits of their ability to substitute preadmission and postdischarge services for inpatient services. The trends for the Medicare population (adults over 65) are similar to those for all adults.

Admissions.—From 1978 to 1983, total admissions increased an average 1.1 percent a year (see table 21). A marked decrease in admissions occurred when PPS was introduced, although this was unexpected. Decreases in all admissions slowed considerably in 1986 and 1987, and in 1988, the decrease was small. Admissions for those under 65 continued to decline slowly in 1988. For those over 65, admissions increased in 1988 following large decreases in the early years of PPS and a slight increase in 1987. Decreases in the early years of PPS may represent a period of adjustment in hospital admitting practices.

Hospital employment.—Hospitals experienced a significant downturn in total employment levels at the time PPS was introduced (see table 22). After declining 2.3 percent in both 1984 and 1985, however, total hospital employment is once again increasing. This most recent growth resulted largely from increased employment in the outpatient area, while inpatient full-time equivalents (FTEs) are still falling. Hospitals continue to employ a greater proportion of part-time personnel. In 1988, as in 1987, the growth in the number of part-time personnel outpaced full-time personnel by a wide margin.

Hospital occupancy.—Hospital occupancy rates declined in the early 1980s through 1986 (see table 23). In 1987 and 1988, occupancy rates increased slightly, but remain well below pre-PPS levels. This increase in occupancy rates is due at least in part to the continued decline in the number of beds.

TABLE 20.—CHANGE IN LENGTH OF STAY, ALL ADULTS AND ADULTS OVER AGE 65, 1978–88

Year	All adults length of stay	Percent change	Adults over 65 length of stay	Percent change
1978	7.2	−0.3	10.6	−1.2
1979	7.1	−1.0	10.4	−1.9
1980	7.2	.5	10.4	−.1
1981	7.2	.4	10.4	−.1
1982	7.2	−.6	10.1	−2.3
1983	7.0	−2.0	9.7	−4.5
1984	6.7	−5.1	8.9	−7.6
1985	6.5	−2.4	8.8	−2.0
1986	6.6	1.5	8.8	.3
1987	6.6	0	8.9	1.1

TABLE 20.—CHANGE IN LENGTH OF STAY, ALL ADULTS AND ADULTS OVER AGE 65, 1978–88—Continued

Year	All adults length of stay	Percent change	Adults over 65 length of stay	Percent change
1988 [1]	6.6	0	8.8	−1.1
Average annual change:				
1978–1983	7.1	−0.5	10.3	−1.7
1984–1988	6.6	−1.2	8.8	−1.9

[1] Estimate based on January through September 1987 compared with January through September 1988.

Source: American Hospital Association National Panel Survey.

TABLE 21.—CHANGE IN HOSPITAL ADMISSIONS, 1978–88

[In percent]

Year	Admissions		
	All	Under age 65	Over age 65
1978	0.4	−1.0	4.9
1979	2.7	1.7	5.3
1980	2.9	1.5	6.7
1981	0.9	0	3.0
1982	0	−1.6	4.1
1983	−.5	−2.8	4.7
1984	−3.7	−4.2	−2.6
1985	−4.9	−4.7	−5.2
1986	−2.1	−2.5	−1.2
1987	−.6	−1.0	.4
1988 [1]	−.1	−1.3	2.4
Average annual change:			
1978–83	1.1	−0.4	4.8
1984–87	−2.3	−2.7	−1.2

[1] Estimate based on January through September 1987 compared with January through September 1988.

Source: American Hospital Association National Panel Survey.

TABLE 22.—CHANGE IN HOSPITAL EMPLOYMENT, 1978–88

[In percent]

Year	Total hospital FTE's	Inpatient FTE's	Personnel		
			Total	Full time	Part time
1978	3.7	3.2	4.1	3.3	6.8
1979	3.5	3.3	3.9	3.0	6.7
1980	4.7	4.5	5.2	4.0	9.1
1981	5.4	5.1	6.0	4.8	9.4
1982	3.7	3.4	3.7	3.6	4.1

TABLE 22.—CHANGE IN HOSPITAL EMPLOYMENT, 1978–88—Continued

[In percent]

Year	Total hospital FTE's	Inpatient FTE's	Personnel		
			Total	Full time	Part time
1983	1.4	.8	1.5	1.2	2.3
1984	−2.3	−3.5	−2.1	−2.6	−.8
1985	−2.3	−4.3	−1.8	−2.7	−.1
1986	.3	−1.4	.4	.3	.7
1987	.7	−.7	.9	.4	2.3
1988 [1]	1.0	−.7	1.4	.6	3.3
Average annual change:					
1978–83	3.7	3.4	4.1	3.3	6.4
1984–88	−.5	−2.1	−.2	−.8	1.1

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[1] Estimate based on January through September 1987 compared with January through September 1988.

Source: American Hospital Association National Hospital Panel Survey.

TABLE 23.—CHANGE IN INPATIENT HOSPITAL OCCUPANCY RATES AND NUMBERS OF BEDS, 1978–88

Year	Percent		Number of beds	Percent changes
	Occupancy rates	Change		
1978	73.8	−0.8	954,001	0.9
1979	74.5	1.0	959,269	.6
1980	75.9	1.9	970,456	1.2
1981	75.8	−.1	986,917	1.7
1982	74.6	−1.6	997,720	1.1
1983	72.2	−3.2	1,003,658	.6
1984	66.6	−7.8	992,616	−1.1
1985	63.6	−4.5	974,559	−1.8
1986	63.4	−.3	963,133	−1.2
1987	64.1	1.1	954,458	−.9
1988 [1]	64.9	.8	944,416	−1.3
Average annual change:				
1978–83	74.5	−.5	978,670	1.0
1984–88	64.5	−2.1	965,836	−1.3

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[1] Estimate based on January through September 1987 compared with January through September 1988.

Source: American Hospital Association National Hospital Panel Survey.

TABLE 24.—SUMMARY CHARACTERISTICS OF PPS HOSPITALS

	Number of hospitals [1]	Medicare discharges (thousands, 1990)	Average number of beds (1987)	Average case mix (1987) [2]	Average wage index (1989) [3]	PPS payment ($ per case, 1990) [4]
All hospitals	5,623	10,500	156	1.243	0.974	4,740
Urban	2,897	8,000	235	1.284	1.025	5,240
Rural	2,726	2,490	71	1.108	.809	3,140
MSA more than 1 million	1,308	3,790	267	1.288	1.092	5,700
Other urban	1,563	4,160	210	1.282	.965	4,830
Sole community	356	290	62	1.127	.879	3,580
Rural referral	207	620	202	1.205	.815	3,750
Other rural	2,189	1,630	61	1.072	.799	2,870
Major teaching	194	820	503	1.415	1.098	7,870
Oher teaching	903	3,500	325	1.320	1.012	5,320
Nonteaching	4,526	6,170	107	1.176	.936	4,000
Disproportionate share:						
MSA more than 1 million	438	1,270	322	1.299	1.135	6,670
Other urban	563	1,660	249	1.290	.953	5,170
Rural	259	190	60	1.035	.773	2,870
Nondisproportionate share	4,363	7,360	132	1.228	.956	4,360
New England	247	600	183	1.252	1.008	5,230
Middle Atlantic	486	1,510	280	1.232	1.068	5,620
South Atlantic	764	1,730	184	1.248	.876	4,260
East North Central	892	1,950	189	1.237	.992	4,800
East South Central	496	920	138	1.175	.817	3,700
West North Central	821	930	95	1.246	.924	4,320
West South Central	829	1,130	124	1.238	.874	4,160
Mountain	391	450	92	1.265	.973	4,520
Pacific	697	1,270	142	1.299	1.193	5,690
Urban less than 100 beds	782	530	60	1.113	1.018	4,110
Urban 100 to 249 beds	1,098	2,330	168	1.211	1.031	4,740
Urban 250 to 404 beds	647	2,660	314	1.289	1.024	5,180
Urban 405 to 684 beds	292	1,850	505	1.373	1.010	5,810
Urban 685 plus beds	78	630	1,255	1.422	1.056	6,640
Rural less than 50 beds	1,373	470	32	1.008	.812	2,700
Rural 50 to 99 beds	771	700	71	1.075	.808	2,920
Rural 100 to 169 beds	394	700	128	1.138	.809	3,220
Rural 170 plus beds	188	620	243	1.191	.808	3,610
Voluntary [5]	3,067	7,410	192	1.263	.993	4,900
Proprietary [5]	961	1,310	122	1.200	.948	4,250
Urban government [5]	464	980	215	1.280	1.002	5,570
Rural government [5]	1,080	760	59	1.076	.792	2,930

[1] Number of hospitals for which data were available for PPS payment simulations. The Medicare Provider Specific File lists 5,859 hospitals.

[2] Weighted by the number of Medicare discharges. The unweighted average across all hospitals is 1.124.

[3] Weighted by the number of Medicare discharges. The unweighted average across all hospitals is 0.923.

[4] Weighted by the number of Medicare discharges. The unweighted average across all hospitals is $3,910 per case.

[5] Information on type of ownership was not available for 51 of the 5,623 hospitals used for the simulations.

Source: CBO estimates based on data from the Health Care Financing Administration.

Additional hospital data

Table 24 above displays summary characteristics of hospitals participating in the Medicare program. These data are derived from CBO PPS payment simulations. Due to a lack of information, about 200 hospitals are missing from the data file. The Medicare discharges (column 2) and the PPS payment per case (last column) are CBO projections. The average number of beds, case mix, and the 1989 wage index for the hospitals on the file are factual data.

HIGHLIGHTS OF LEGISLATION AND REGULATIONS AFFECTING THE PROSPECTIVE PAYMENT SYSTEM

Medicare's Prospective Payment System (PPS) for hospitals has evolved through legislation and regulation. The original authorizing legislation, the Social Security Amendments of 1983 (P.L. 98-21), was first implemented by interim final rules issued by the Department of Health and Human Services on September 1, 1983 (48 FR 39752), and final rules issued on January 3, 1984 (49 F.R. 234).

The Deficit Reduction Act of 1984 (P.L. 98-369) made certain changes to PPS. These changes were incorporated into final rules issued by the Department on August 31, 1984 (49 F.R. 34728).

The Department issued final rules on September 3, 1985 (50 F.R. 35645) making certain changes to PPS and freezing the PPS payment rates for fiscal year 1986. However, none of the payment features of these final rules became effective.

The payment features the Department would have applied to fiscal year 1986 could not be implemented because the Emergency Extension Act of 1985 (P.L. 99-107, as amended by P.L. 99-201) extended the payment provisions that were in effect on September 30, 1985 (the final day of fiscal year 1985), through March 14, 1986. The fiscal year 1985 payment provisions were extended again, through April 30, 1986, by Public Law 99-272. The extension of the fiscal year 1985 payment provisions into fiscal year 1986 had many effects, including a delay in the PPS transition schedule.

The Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177, known as the Gramm-Rudman-Hollings Act) reduced Medicare payments to hospitals in fiscal year 1986.

Two reconciliation bills in the 99th Congress changed a number of PPS provisions. The Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272, known as COBRA) was implemented by an interim final rule on May 6, 1986 (51 F.R. 16771), and a final rule on September 3, 1986 (51 F.R. 31453). The Omnibus Budget

Reconciliation Act of 1986 (P.L. 99-509) was accompanied by a final rule on November 24, 1986 (51 F.R. 42229).

Several features of the PPS, including the calculation of the wage index, the inclusion of hospitals in Puerto Rico and alcohol and drug abuse hospitals and distinct part units in the PPS, were altered by a final regulation published on September 1, 1987 (52 FR 33034). Changes in hospital payments required by Public Law 100-119 were implemented by a final regulation published on October 23, 1987 (52 FR 39637). A notice implementing the provisions of Public Law 100-203 (OBRA87) was issued April 5, 1988 (53 FR 11134). Regulations issued September 30, 1988 (53 FR 38476), established payment rates for fiscal year 1989 and made various changes in PPS rules, especially the treatment of outlier cases.

Public laws 100-360, 100-485, and 100-647 made minor and technical changes to PPS provisions, especially those contained in OBRA '87.

Legislation and regulations which changed selected features of the prospective payment system are highlighted as follows:

Increases in Medicare payments to hospitals

Public Law 98-21 and 49 F.R. 234: Provides that the Medicare DRG payment rates for fiscal years 1984 and 1985 would be increased annually by the increase in the hospital market basket plus 1 percentage point, subject to a budget neutrality requirement which provides that Medicare payments in those 2 years must equal what would have been spent if PPS had not been put in place. Provides that the Secretary would determine the rate of increase for fiscal year 1986 and thereafter, taking into account the recommendations of the Prospective Payment Commission.

Public Law 98-369 and 49 F.R. 34728: Changes the annual increase in the DRG payment rates for fiscal year 1985 to the increase in the market basket plus 0.25 percentage point, subject to budget neutrality. Limited the rate of increase to be determined by the Secretary for fiscal year 1986 to the rate of increase in the market basket plus 0.25 percentage point.

50 F.R. 35645: The Secretary promulgated a zero rate of increase in the DRG payment rates for fiscal year 1986.

Public Law 99-107: Provided that the payment rates in effect on September 30, 1985, would remain in effect until November 14, 1985. Public Laws 99-155, 99-181, 99-189 and 99-201 extended this requirement through March 14, 1986. (The freeze was extended through April 30, 1986, by P.L. 99-272.)

Public Law 99-177: Reduced fiscal year 1986 Medicare payments to hospitals by 1 percent beginning March 1, 1986.

Public Law 99-272, 51 FR 16771, and 51 FR 31453: Provided that the fiscal year 1986 PPS payment rates would be frozen at fiscal year 1985 levels until May 1, 1986, and would be increased ½ percent for the remainder of the year.

Public Law 99-509 and 51 FR 42229: Increased the payment rates for PPS hospitals by 1.15 percent in fiscal year 1987 and by the hospital market basket minus 2 percentage points in fiscal year 1988.

Public Law 100-119, 52 FR 39637: Provided an update of zero percent for the period from October 1, 1987, to November 20, 1987.

The final sequester order pursuant to this legislation reduced all Medicare payments to hospitals by 2.324 percent beginning on November 21, 1987. The update of 2.7 percent mandated by Public Law 99-509 (52 FR 33034) also went into effect on November 21, 1987.

Public Law 100-203, 53 FR 11134, 53 FR 38476: required that the sequestration reduction mandated by Public Law 100-119 continue through March 31, 1988. Beginning on April 1, 1988, instead of the 2.7 percent update provided by Public Law 99-509, the PPS payment rates are increased by 3 percent for hospitals located in a rural area, by 1.5 percent for hospitals located in an urban area with a total population of more than 1 million persons (large urban areas), and by 1 percent for hospitals located in other urban areas. For fiscal year 1989, the update is equal to the increase in the market basket index minus 1.5 percentage points for hospitals located in a rural area, minus 2 percentage points for hospitals located in a large urban area, and minus 2.5 percentage points for hospitals located in other urban areas. The market basket increase for 1989 was forecast at 5.4 percent, resulting in the following rate increases: rural, 3.9 percent; large urban, 3.4 percent; other urban 2.9 percent.

Wage index

Public Law 98-21: Provided that the Federal portion of the DRG rates be adjusted by a wage index to reflect the hospital wage level in an individual hospital's geographic area relative to the national average hospital wage level.

49 FR 234: The Department indicated it would use employment data from the Bureau of Labor Statistics (BLS) to develop the wage index. While acknowledging the limitations of the BLS data (including lack of information about part time employment), the Department stated that BLS data are the best presently available for the development of the wage index.

Public Law 98-369: Required the Secretary, in consultation with the Secretary of Labor, to conduct a study to develop an appropriate wage index, taking into account wage differences of full-time and part-time employees. The results of the study were to be reported to Congress by August 18, 1984. If any changes are made to the wage index as a result of this study, the Secretary is required to make retroactive adjustments to the payment amounts for hospital cost reporting periods beginning on or after October 1, 1983. Required the Secretary to study and report to Congress proposed criteria to be used to modify a hospital's wage adjustment if the hospital can demonstrate that the wage index does not accurately reflect wage levels in the labor market serving the hospital.

49 FR 34728: The Department indicated that it surveyed the hospitals subject to PPS to obtain wage and employment data which could be used to develop an improved wage index. However, the data obtained had too many errors to develop a reliable wage index in time for the publication of the August 1984 rules. The Department is planning to use these data, once they are determined to be accurate and reasonably complete, to conduct the mandated study and to construct a revised wage index. The Department indicated that any revised wage index will be retroactive to October 1, 1983, as mandated by law. The Department indicated that it does not intend to address the development of adjustment criteria in the near future.

50 F.R. 35645: The Department promulgated final regulations to implement the survey-based gross wage index retroactive to October 1, 1983. The survey-based wage index used to determine the amount of a hospital's underpayment or overpayment would be based on the recognized urban/rural definition in effect for the entire Federal fiscal year for which the payment adjustment determination is being made. The payment adjustments will be spread out over the course of one year, rather than requiring lump-sum payments to minimize the negative impact on overpaid hospitals.

Public Law 99-107: Provided that Medicare hospital payment amounts would be determined on the same basis as they were on September 30, 1985. Public Laws 99-155, 99-181, 99-189 and 99-201 extended this requirement through March 14, 1986. This means that there can be no change in the wage index until after this date. (This was extended through April 30, 1986, by P.L. 99-272.)

Public Law 99-272: Mandated that the gross wage index be used beginning on May 1, 1986. Also eliminated the requirement for retroactive adjustment of hospital payments.

52 F.R. 33039: Changed the method of calculating the national average wage level, and updated the wage index data. The national average wage level is now calculated by dividing national aggregate wages and salaries by the national aggregate number of paid hours of hospital employment. The Secretary also used new data; wages and salaries and paid hours of employment for hospital cost reporting periods beginning during fiscal year 1984 (the first year of the PPS). However, in order to avoid large changes in index values for individual areas, the Secretary adopted a blended wage index, which is calculated by adding together the 1982 and the 1984 index values for each area and dividing the resulting sum by 2. Wage index values for urban and rural labor market areas located in Puerto Rico are based solely on 1984 data. The new index took effect for discharges occurring on or after October 1, 1987.

Public Law 100-203: Requires the Secretary to update the wage index by October 1, 1990, and at least every 3 years thereafter. Updates are to be based on a periodic survey of the wages and wage related costs of PPS hospitals. To the extent feasible, the survey must be designed to measure earnings and hours of paid employment by occupational category, and to permit exclusion of the wages and wage related costs hospitals incur in providing skilled nursing facility services.

53 F.R. 38476: Continued use of the wage index based on a blend of 1982 and 1984 data. The new index also took account of certain legislative changes, such as the redesignation of certain rural counties as urban.

Public Law 100-647: Required adjustments in the wage index to ensure that, for discharges during fiscal years 1990 and 1991, no other area suffers a reduced wage index because of the shifting of one of these counties. The Secretary is required to report to Congress by January 1989 on possible ways of reducing the adverse impact on wage index values during fiscal year 1989.

Referral centers

Public Law 98-21: Required the Secretary to provide for such exceptions and adjustments to the DRG payment amounts as the Secretary deems appropriate to take into account the special needs of regional and national referral centers (including hospitals of 500 or more beds located in rural areas).

49 F.R. 234: The Department's criteria for a referral center were that the hospital must be located in a rural area and have at least 500 beds; or the hospital must have an inpatient population such that at least 50 percent of its Medicare patients are referred from other hospitals or from physicians not on the staff of the hospital, at least 60 percent of the hospital's Medicare patients reside more than 25 miles from the hospital, and at least 60 percent of all services received by Medicare beneficiaries are provided to beneficiaries residing more than 25 miles from the hospital. Such hospitals would be paid on the basis of the higher urban rates, rather than the rural rates. No adjustment was provided for rural referral centers with fewer than 500 beds or for referral centers located in urban areas.

Public Law 98-369: Provided that a rural hospital may appeal to the Secretary to be classified as a rural referral center on the basis of criteria established by the Secretary which would allow the hospital to demonstrate that it should be so classified because it has characteristics (such as wages, scope of services, service area, and mix of medical specialties) similar to those of a typical urban hospital located in the same census region.

49 F.R. 34728: The Department broadened the definition of a rural referral center to include rural hospitals that meet a case mix index threshold, a minimum number of discharges, and one of the following three criteria: more than 50 percent of the hospital's medical staff are specialists, at least 60 percent of discharges are inpatients residing more than 25 miles from the hospital, or at least 40 percent of inpatients have been referred either from other hospitals or from physicians not on the hospital's staff.

50 F.R. 35645: The Department changed the qualifying criteria for referral centers by (1) specifying the methodology for and updating the case mix index thresholds (i.e., either the national case mix index value of 1.1294 or the median urban case mix index value for the hospital's region), and (2) specifying the threshold for the required number of discharges (i.e., either the national discharge criterion of 6,000 or the median number of urban discharges for the hospital's region).

Public Law 99-272: Reduced the requirement that a hospital have at least 6,000 or more discharges a year to 3,000, but only for osteopathic hospitals.

51 F.R. 31453: Reduced the requirement for all other hospitals to 5,369 (or a number at least equal to a specific number of discharges calculated for each census region).

Public Law 99-509: Reduced that requirement further to 5,000. Public Law 99-509 also specified that teaching hospitals should not be considered when calculating the median case mix for urban hospitals located in the same region.

52 F.R. 33034: Updated the national and regional case mix and discharge standards.

Public Law 100–203 and 53 F.R. 11134: Reduced the minimum number of beds criterion for hospitals located in a rural area, from 500 to 275, effective for discharges occurring on or after April 1, 1988. The legislation also requires the Secretary to study and report to Congress, by May 1, 1989, on (1) the referral center criteria, including, for hospitals currently designated as referral centers, the relationship of their PPS payments to their costs of inpatient care, and the appropriateness of payment on the basis of some rate other than the "other urban area" rate, and; (2) recommendations regarding criteria to be used in designating referral centers for cost reporting periods beginning on or after October 1, 1989.

Outliers

Public Law 98–21: Required the Secretary to provide for additional payments to hospitals for atypical cases, "outliers" whose length of stay exceeds the mean by a fixed number of days or a fixed number of standard deviations, whichever is fewer; or cases which do not meet the length of stay criteria but have charges adjusted to cost that exceed a fixed multiple of the DRG rate, or some other fixed dollar amount, whichever is greater. Provides that total outlier payments in a fiscal year must be between 5 and 6 percent of total projected DRG payments for that year.

49 F.R. 234: For fiscal year 1984, the Department defined a "day" outlier case as one for which the length of stay exceeds the average length of stay for that DRG by the lesser of 20 days or 1.94 standard deviations. The additional payment for each outlier day beyond the threshold would be 60 percent of the hospital's Federal payment amount for the DRG divided by the average length of stay for the DRG. A "cost" outlier case was defined as one for which covered charges, adjusted to operating costs, exceed the greater of 1.5 times the hospital's Federal payment amount for the DRG or $12,000. For cost outliers, the additional payment is 60 percent of the difference between the hospital's adjusted charges for the discharge and the threshold. The Department expected that under these criteria, outlier payments would approximate 6 percent of total payments to hospitals. No provision was made for outlier payments to transferring hospitals.

49 F.R. 34728: For fiscal year 1985, the Department changed the criterion for day outliers to the lesser of 22 days or 1.94 standard deviations. The criterion for cost outliers was changed to the greater of 2 times the hospital's Federal payment amount for the DRG or $13,000. The Department anticipated that these changes would reduce total outlier payments to hospitals from 6 percent to 5 percent of total DRG payments to hospitals. In addition, the Department permitted a hospital that transfers a high cost patient on or after October 1, 1984, to receive cost outlier payments.

50 F.R. 35645: For fiscal year 1986 the Department changed the criterion for day and costs outliers. If the number of days exceeds the mean length of stay for discharges within the DRG by the lesser of 17 days or 1.94 standard deviations, it would qualify as a day outlier. A discharge will be considered a high cost outlier if the cost of covered services exceeds the greater of 2.0 times the Federal rate for the DRG or $13,500. The thresholds for both day and cost outliers are still set to achieve outlier payments of 5 percent. However, this change did not go in effect because of Public Law 99-107, as amended by Public Law 99-201. In addition, medical review by a Peer Review Organization (PRO) prior to the payment of cost outlier's would no longer be required. However, if the PRO finds a hospital has a pattern of inappropriately claiming cost outliers payments, all outlier cases from that hospital would be subject to review, and the review could be conducted prior to payment until the PRO determines that appropriate corrective actions have been taken. The regulations also allow hospitals to request an outlier payment at the time they submit the bill for the discharge rather than waiting until they receive the intermediary's determination of the payment rate for the discharge.

Public Law 99-509 and 51 F.R. 42229: Established a separate urban and a separate rural set-aside factor for outliers. As a result, instead of the uniform 5 percent reduction factor applied to all of the standardized amounts, there are now two factors, one for urban standardized amounts and one for rural standardized amounts. Overall, outlier payments are required to be made at the same level as they were before this provision was enacted.

Public Law 100-203: Increased payments for outlier cases classified in DRGs relating to patients with burns from April 1, 1988, through September 30, 1989. This legislation also prohibited the Secretary from issuing any final regulations before September 1, 1988, which change the method of payment for outlier cases (other than burn cases).

53 F.R. 38476: Modified the thresholds used in determining whether a case is an outlier and increases the allowable payment amounts for cost outliers, effective November 1, 1988 (transitional rules were established for discharges during October 1988). The new threshold for length of stay outliers is the lesser of 24 days or 3 standard deviations; for cost outliers it is the greater of $28,000 or 2 standard deviations. The marginal cost factor for cost outliers (other than burn cases) is raised to 75 percent.

Payment for indirect medical education

Public Law 98-21: Provided for additional payments to hospitals for the indirect costs of medical education, computed at twice the level of the educational adjustment factor provided under regulations in effect as of January 1, 1983—under the former "section 223" cost limits. The Federal portion of a hospital's DRG payments is then increased by this doubled factor.

49 F.R. 234: The educational adjustment factor in effect as of January 1, 1983 was 6.06 percent for each 0.1 increase, (above zero), in the ratio of a hospital's full-time equivalent interns and residents to its number of beds. Full-time equivalent interns and residents were defined as the sum of those employed for 35 hours or more per week, plus one-half of the total number of interns and residents working less than 35 hours per week. A hospital was allowed to count only interns and residents who were employed by and furnishing services at that hospital (excluding those employed by the hospital but furnishing services at another site).

Under PPS, the Department provided for an education adjustment factor of 11.59 percent (rather than twice the 6.06 percent factor provided in the earlier regulations). The regulations indicated that 11.59 percent was the appropriate increase after recomputing the factor using the data base on which the DRG payments were based, instead of the data base used to calculate the earlier factor. Criteria for determining which interns and residents could be counted were kept the same as in earlier regulations, except interns and residents furnishing services in the hospital but employed by an organization with a long-standing historical medical relationship with the hospital could be included.

Public Law 98-369: Provided that, effective October 1, 1984, all interns and residents who furnish services to a hospital are to be counted for purposes of determining that hospital's indirect medical education adjustment, regardless of whether or not the interns and residents are employees of that hospital.

49 F.R. 34728: To conform with the change in law, the Department indicated that it would now count full-time interns and residents on the basis of where their services were provided. When working at more than one hospital, each intern's or resident's time would be apportioned to each facility. To avoid the potential for counting interns and residents more than once, the Department is requiring hospitals to submit quarterly reports documenting the time worked by interns and residents. The final lump-sum payment for indirect medical education costs will not be made until the audit of a hospital's cost report is completed.

50 F.R. 35645: The Department changed the method used to determine the number of beds in a hospital for purposes of counting interns and residents for cost reporting periods beginning on or after October 1, 1984. In addition, the requirement that a hospital provide a quarterly report on the number of interns and residents was replaced with an annual report that counts the number of interns and residents on September 1 (with an additional count on April 15, 1985 for hospitals with cost reporting periods beginning on or after October 1, 1984 and before July 1, 1985). The requirement of counting hours of interns and residents to determine full-time equivalents was deleted. Instead, all interns and residents assigned to the hospital on September 1 (or April 15, 1985 if applicable) will be counted as full-time except for those individuals splitting their time between prospective payment areas and one or more areas excluded from PPS, or spending all their time in excluded areas. The intermediary will be required to review the hospital's documentation to verify the hospital's intern- and resident-to-bed ratio.

Public 99-272, 51 F.R. 16771, and 51 F.R. 31453: Based the additional payment to a hospital on a formula that provides an increase of approximately 8.1 percent in the Federal portion of the DRG payment, from May 1, 1986, to October 1, 1988 (when the disproportionate share adjustment was scheduled to expire). The payment increases with the ratio of a hospital's interns and residents to its bed size on a curvilinear or variable basis (i.e., the increase in the payment is less than proportional to the increase in the ratio of interns and residents to bed size). The payment adjustment after October 1, 1989, would be an increase of approximately 8.7 percent.

Public Law 99-509: Extended the disproportionate share adjustment, and the reduction in the teaching adjustment to 8.1 percent, until October 1, 1989.

Public Law 100-203 and 53 F.R. 38476: Extended the disproportionate share adjustment to October 1, 1990, and reduced the teaching adjustment factor from approximately 8.1 percent to approximately 7.7 percent, effective for discharges occurring on or after October 1, 1988, but before October 1, 1990. The adjustment for discharges occurring on or after October 1, 1990 (when the disproportionate share adjustment was originally scheduled to expire), is also reduced from 8.7 percent to 8.3 percent.

Public Law 100-647: Extended the authority for disproportionate share payments through September 30, 1995.

Payment for nonphysician anesthetists

Public Law 98-21: Provided that all nonphysician services provided to hospital inpatients would be paid for only as hospital services under Part A of Medicare, not under Part B.

49 F.R. 234: The Department decided to allow a time-limited exception to this provision for the inpatient hospital services of anesthetists employed by physicians. For hospital cost reporting periods beginning before October 1, 1986, physicians could continue to bill Part B for the services of anesthetists if they employed anesthetists as of hospital cost reporting periods ending before September 30, 1983. The costs of these services could not be added to the hospital's base period for purposes of determining the hospital-specific portion of the payment rate during the transition period.

Public Law 98-369: For hospital cost reporting periods beginning October 1, 1984, and ending before October 1, 1987, removes from the definition of "operating costs of inpatient hospital services" the costs of anesthesia services associated with the employment of, or contracts for, certified nurse anesthetists (CNAs). Such costs will not be paid for in the DRG rates, but will be passed through and paid for on the basis of reasonable costs. Requires the Secretary to study and report to Congress as soon as is practicable possible methods of reimbursement which will not discourage the use of CRNAs by hospitals. The Conference Report for this legislation indicates that the conferees understand that the administration will modify the regulations to permit physicians who did not employ CRNAs before the specified date to bill Part B for the services of CRNAs whom they have subsequently employed; such billing will terminate on October 1, 1987, rather than October 1, 1986.

49 F.R. 34728: The Department changed the regulations to incorporate the changes made by Public Law 98-369 (as described above). In addition, the Department clarified that these provisions apply to the costs of anesthesia services provided by qualified nonphysician anesthetists, including anesthesiology assistants as well as CRNAs.

Public Law 99-509: Extended current payment provisions for the services of hospital-employed CRNAs for services provided before January 1, 1989. The legislation authorized direct reimbursement to a CRNA for anesthesia services and related care which he or she is legally authorized to perform in the State. These payments would be made equal to the lower of 80 percent of actual charges or 80 percent of a fee schedule amount established by the Secretary. This provision is to be budget neutral. CRNAs would be required to accept Medicare's determination of the allowable amount (Medicare's payment plus the patient's 20 percent coinsurance amount) as payment-in-full for all Medicare services. The fee schedule would apply to services provided after January 1, 1989. Special limits on the actual charges of nonparticipating physicians for CRNA services and medical direction would apply.

Urban/rural boundaries

Public Law 98-21 and 49 F.R. 234: Provided that hospitals in urban areas are paid different Federal DRG rates than hospitals located in rural areas. Urban areas are defined as those located within a Metropolitan Statistical Area (MSA) or a New England County Metropolitan Area (NECMA). Rural areas are those not classified as urban areas. Provided that during a 3-year transition period, hospitals are paid on the basis of Federal DRG payment amounts calculated separately for each of the nine census regions of the country.

Public Law 98-369: Provided that hospitals located in an MSA that crosses census region boundaries be deemed to be in the region in which a majority of the hospitals in that MSA are located or, at the option of the Secretary, the region from which the majority of the Medicare inpatient discharges within that MSA are made. In addition, provided that hospitals located in counties redesignated from urban to rural because of a change in the MSA or NECMA classification system since April 20, 1983, are allowed a 2-year transition to the lower rural payment rates. In the first hospital cost reporting period, the hospital would be paid the rural rate plus two-thirds of the difference between its rural and urban rates. In the second year, it would be paid the rural rate plus one-third of the difference between its rural and urban rates.

49 FR 34728: The Department changed the regulations to conform to the changes in Public Law 98-369 (as described above). However, in determining the appropriate region for hospitals in MSA's which cross more than one region's boundaries, the Department chose not to use the criterion of the number of Medicare inpatient discharges. Also, if an equal number of hospitals within the MSA are located in each census region, the Department provided that such hospitals will be deemed to be in the census region with the higher Federal rate.

Public Law 100-203: Changed the standards for including a rural county adjacent to an urban area in the definition of the urban area. If (1) at least 15 percent of employed residents of the rural county commute to one or more adjacent urban areas for employment, or (2) the sum of the number of county residents commuting to all adjacent urban areas plus the number of residents of all adjacent urban areas commuting to the rural county for employment, is at least equal to 20 percent of the employed population of the county, then the rural county would be included in the definition of the urban area to which the greatest number of its residents commute.

Public Law 100-647: Requires adjustments to ensure that, for discharges during fiscal years 1990 and 1991, no other area suffers a reduced wage index because of the shifting of one of these counties. The Secretary is required to report to Congress by January 1989 on possible ways of reducing the adverse impact on wage index values during fiscal year 1989.

Payments for capital-related costs

Public Law 98-21: Provided that capital-related costs (including depreciation, leases and rentals, interest, and a return on equity for proprietary hospitals) are excluded from the prospective payment system until no earlier than October 1, 1987, and are paid for on a reasonable cost basis. This legislation also required the Secretary to report to Congress within 18 months of enactment (October 1984) on methods and proposals by which capital costs can be included in the prospective payment rates. In March 1986, HHS submitted a report to Congress on incorporating capital costs in the prospective payment rates.

Public Law 98-369: Provided that, in the case where funds are borrowed for the purchase of used assets (change of ownership), the interest expense allowable to the new owner may not exceed the amount that would be incurred by borrowing funds equal to the depreciated value of the assets on the seller's books (i.e., without revaluation).

Public Law 98-369: Also provided that the return on equity capital on assets purchased from a previous owner (change of ownership) is limited to the amount that would be payable if the return were calculated on the depreciated value of the assets on the previous owner's books at the time of the sale.

Public Law 99-272: Provided that payments to proprietary hospitals for a return on equity (ROE) are separated from payments for other capital costs and phased out as follows: for hospital cost reporting periods beginning in fiscal year 1987, payment will equal 75 percent of the otherwise allowable ROE amount; for fiscal year 1988, 50 percent; for fiscal year 1989, 25 percent; and for fiscal year 1990 and thereafter, no ROE payments will be made.

Public Law 99-509: Reduced payment amounts for capital-related costs by 3.5 percent for portions of cost-reporting periods in fiscal year 1987, 7 percent for fiscal year 1988, and 10 percent for fiscal year 1989. The legislation exempts sole community hospitals from capital-related payment reductions and regulations for 3 years. It also clarifies that the HHS Secretary may incorporate capital-related costs, on a budget neutral basis into PPS, effective October 1, 1987.

Public Law 100-119 (the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987): Prohibited the Secretary from implementing published final regulations incorporating payments for capital costs into the DRG payment rates for fiscal year 1988, froze the capital payment reduction at the fiscal year 1987 level (3.5 percent), and delayed the phaseout of ROE payments to proprietary hospitals, for the period from October 1, to November 20, 1987. On November 21, 1987, the capital payment reduction reverted to the 7 percent level established for fiscal year 1988 in OBRA86, and the phaseout of ROE payments resumed.

Public Law 100-203: Increased the capital payment reduction to 12 percent for fiscal year 1988, effective on January 1, 1988, and 15 percent in fiscal year 1989. This legislation also prohibits the Secretary from incorporating payment of capital related costs into the PPS payment rates before October 1, 1991. However, the Secretary is required to make payments for capital related costs on a per case, prospective basis beginning on October 1, 1991. The methods to be used in making prospectively determined capital payments are generally left to the discretion of the Secretary. In addition, OBRA87 requires ProPAC to undertake a study and report to Congress by May 1, 1988, on the suitability and feasibility of linking payment for capital related costs to hospital occupancy rates.

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U.S. Congress. House. Committee on the Budget. Task Force on Health. Financial health of the nation's hospitals under Medicare. Hearing, 100th Congress, 2nd session. Aug. 1, 1988. Washington, G.P.O., 1988. 228 p.

U.S. Congress. House. Committee on Ways and Means. FY88 budget reconciliation issues relating to hospital payment under the Medicare program. Hearings, 100th Congress, 1st session. Apr. 1, 1987. Washington, U.S. Govt. Print. Off., 1987. 94 p.

———. FY88 budget reconciliation issues relating to the reimbursement of hospital capital expenditures under Medicare. Hearings, 100th Congress, 1st session. May 4, 1987. Washington, U.S. Gov't Print. Off., 1988. 96 p.

———. Medicare hospital DRG margins. Hearings, 100th Congress, 1st session. Feb. 26, 1987. Washington, U.S. Govt. Print. Off., 1987. 135 p.

U.S. Congress. Senate. Committee on Finance. Medicare hospital payment rates. Hearings, 100th Congress, 1st session. Apr. 7, 1987. Washington, U.S. Govt. Print. Off., 1987. 141 p.

U.S. Congress. Office of Technology Assessment. Medicare's prospective payment system: strategies for evaluating cost, quality, and medical technology. [Washington] U.S. Government Printing Office, October 1985. 232 p. (OTA-H-262)

U.S. Department of Health and Human Services. Review of the impact of outlier and transfer payment policy upon rural hospitals. Report to Congress. [Washington] May 1988. 70 p.

———. Reimbursement of rural referral centers under the Medicare prospective payment system. Report to Congress. [Washington] Feb. 1988. 100 p.

———. Studies of urban-rural and related geographical adjustments in the Medicare prospective payment system. [Washington] Dec. 1987. 149 p.

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U.S. Department of Health and Human Services. Office of Inspector General. Office of Audit. Preliminary analysis of hospital profit margins in the third year of the prospective payment system. [Washington] January 25, 1988. 35 p. (CIN: A-07-87-00051)

———. National DRG validation study: Special report on coding accuracy. [Washington] February 1988. 17 p. (Audit Control no. OAI-12-88-01010)

———. National DRG validation study: Special report on premature discharges. [Washington] February 1988. 27 p. (Audit Control no. OAI-05-88-00740)

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———. Medicare inpatient medical education payments to teaching hospitals. [Washington] May 15, 1986. 17 p. (Audit Control no. 09-62003)

———. Medicare payments of return on equity capital to proprietary providers. [Washington] October 12, 1983. 20 p. (Audit Control no. 09-32607)

U.S. General Accounting Office. Health care facilities: capital construction expenditures by State; fact sheet for the chairman. Subcommittee on Health and the Environment, Committee on Energy and Commerce, House of Representatives. [Washington] U.S. Government Printing Office, August 1986. 15 p. (GAO/HRD-86-1345FS)

———. Medicare: alternatives for paying hospital capital costs; report to the chairman. Subcommittee on Health, Committee on Ways and Means, House of Representatives. [Washington] U.S. Government Printing Office, August 1986. 73 p. (GAO/HRD-86-93)

———. Medicare: reviews of quality of care at participating hospitals; report to the administrator, Health Care Financing Administration. [Washington] U.S. Government Printing Office, September 1986. 11 p. (GAO/HRD-86-139)

———. Past overuse of intensive care services inflates hospital payments; report to the Secretary of Health and Human Services. [Washington] U.S. Government Printing Office, March 1986. 96 p. (GAO/HRD-85-74)

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———. Medicare: number of rural hospitals terminating participation since the program began; report to the Chairman, Subcommittee on Health, Committee on Finance, U.S. Senate. [Washington] U.S. Govt. Print. Off., 1988. 7 p. (GAO/HRD-88-46)

———. Medicare: indirect medical education payments are too high; report to congressional committees. [Washington] U.S. Govt. Print. Off., 1989. 58 p. (GAO/HRD-89-33)

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———. Medicare, Medicaid, and other health provisions of the Consolidated Budget Reconciliation Act of 1985 (P.L. 99-272 (known as COBRA)) [by] Jennifer O'Sullivan [Washington] 1986. 128 p. CRS Report 86-196 EPW.

———. Medicare and Medicaid provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) [by] Jennifer O'Sullivan and Glenn Markus. [Washington] 1982. 66 p. CRS Report 82-173 EPW.

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———. Rural hospitals and Medicare's prospective payment system. [Washington] May 1986. Background paper prepared for the use of the Committee on Finance. 65 p.

———. Rural hospitals under Medicare's prospective payment system and the Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509), by Joseph A. Cislowski and Janet P. Lundy. [Washington] Oct. 8, 1987. CRS Report 87-816 EPW.

———. Medicare's prospective payment system: an analysis of the financial risk of outlier cases. [by] Julian Pettengill, Michael O'Grady, and Rich Rimkunas. [Washington] 1987. 217 p. CRS Report 87-877 EPW.

TABLE 25.—WAGE INDEX FOR URBAN AREAS

Urban area (constituent counties or county equivalents)	Wage index
Abilene, TX	0.8629
Taylor, TX	
Aguadilla, PR	.4596
Aguada, PR, Aguadilla, PR, Isabella, PR, Moca, PR	
Akron, OH	.9994
Portage, OH, Summit, OH	
Albany, GA	.7724
Dougherty, GA, Lee, GA	
Albany-Schenectady-Troy, NY	.8675
Albany, NY, Greene, NY, Montgomery, NY, Rensselaer, NY, Saratoga, NY, Schenectady, NY	
Albuquerque, NM	1.0158
Bernalillo, MN	
Alexandria, LA	.8158
Rapides, LA	
Allentown-Bethlehem, PA–NJ	.9828
Warren, NJ, Carbon, PA, Lehigh, PA, Northampton, PA	
Altoona, PA	.9446
Blair, PA	
Amarillo, TX	.9297
Potter, TX, Randall, TX	
Anaheim-Santa Ana, CA	1.1994
Orange, CA	
Anchorage, AK	1.4575
Anderson, IN	.9027
Madison, IN	
Anderson, SC	.7815
Ann Arbor, MI	1.1507
Washtenaw, MI	
Anniston, AL	.7824
Calhoun, AL	
Appleton-Oshkosh-Neenah, WI	.9746
Calumet, WI, Outagamie, WI, Winnebago, WI	
Arecibo, PR	.4375
Arecibo, PR, Camuy, PR, Hatillo, PR, Quebradillas, PR	
Asheville, NC	.8474
Buncombe, NC	
Athens, GA	.7686
Clarke, GA, Jackson, GA, Madison, GA, Oconee, GA	
Atlanta, GA	.9168
Barrow, GA, Butts, GA, Cherokee, GA, Clayton, GA, Cobb, GA, Coweta, GA, De Kalb, GA, Douglas, GA, Fayette, GA, Forsyth, GA, Fulton, GA, Gwinnett, GA, Henry, GA, Newton, GA, Paulding, GA, Rockdale, GA, Spalding, GA, Walton, GA	
Atlantic City, NJ	.9868
Atlantic City, Cape May, NJ	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Augusta, GA–SC Columbia, GA, McDuffie, GA, Richmond, GA, Aiken, SC	.8881
Aurora-Elgin, IL Kane, IL, Kendall, IL	1.0093
Austin, TX Hays, TX, Travis, TX, Williamson, TX	1.0378
Bakersfield, CA Kern, CA	1.1081
Baltimore, MD Anne Arundel, MD, Baltimore, MD, Baltimore City, MD, Carroll, MD, Harford, MD, Howard, MD, Queen Annes, MD	1.0148
Bangor, ME Penobscot, ME	.8879
Baton Rouge, LA Ascension, LA, East Baton Rouge, LA, Livingston, LA, West Baton Rouge, LA	.9375
Battle Creek, MI Calhoun, MI	.9602
Beaumont-Port Arthur, TX Hardin, TX, Jefferson, TX, Orange, TX	.9366
Beaver County, PA	.9436
Bellingham, WA Whatcom, WA	1.0790
Benton Harbor, MI Berrien, MI	.8382
Bergen-Passaic, NJ	1.0267
Billings, MT Yellowstone, MT	.9726
Biloxi-Gulfport, MS Hancock, MS, Harrison, MS	.7987
Binghamton, NY Broome, NY, Tioga, NY	.9079
Birmingham, AL Blount, AL, Jefferson, AL, Saint Clair, AL, Shelby, AL, Walker, AL	.9198
Bismarck, ND Burleigh, ND, Morton, ND	.9287
Bloomington, IN Monroe, IN	.9188
Bloomington-Normal, IL McLean, IL	.9434
Boise City, ID Ada, ID	1.0036
Boston-Lawrence-Salem-Lowell-Brockton, MA Essex, MA, Middlesex, MA, Norfolk, MA, Plymouth, MA, Suffolk, MA	1.0792
Boulder-Longmont, CO Boulder, CO	1.0685
Bradenton, FL Manatee, FL	.8768
Brazoria, TX	.8308

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Bremerton, WA	.9378
Kitsap, WA	
Bridgeport-Stamford-Norwalk-Danbury, CT	1.1195
Fairfield, CT	
Brownsville-Harlingen, TX	.8512
Cameron, TX	
Bryan-College Station, TX	.9347
Brazos, TX	
Buffalo, NY	.9697
Erie, NY	
Burlington, NC	.7525
Alamance, NC	
Burlington, VT	.9435
Chittenden, VT, Grand Isle, VT	
Caguas, PR	.3978
Caguas, PR, Gurabo, PR, San Lorenz, PR, Aguas Buenas, PR, Cayey, PR, Cidra, PR	
Canton, OH	.9167
Carroll, OH, Stark, OH	
Casper, WY	.9814
Natrona, WY	
Cedar Rapids, IA	.9215
Linn, IA	
Champaign-Urbana-Rantoul, IL	.9114
Charleston, SC	.8441
Berkeley, SC, Charleston, SC, Dorchester, SC	
Charleston, WV	.9727
Kanawha, WV, Putnam, WV	
Charlotte-Gastonia-Rock Hill, NC–SC	.8398
Cabarrus, NC, Gaston, NC, Lincoln, NC, Mecklengburg, NC, Rowan, NC, Union, NC, York, SC	
Charlottesville, VA	.8795
Albermarle, VA, Charlottesville City, VA, Fluvanna, VA, Greene, VA	
Chattanooga, TN–GA	.9138
Catoosa, GA, Dade, GA, Walker, GA, Hamilton, TN, Marion, TN, Sequatchie, TN	
Cheyenne, WY	.8932
Laramie, WY	
Chicago, IL	1.1179
Cook, IL, Du Page, IL, McHenry, IL	
Chico, CA	1.1112
Butte, CA	
Cincinnati, OH–KY–IN	1.0288
Dearborn, IN, Boone, KY, Campbell, KY, Kenton, KY, Clermont, OH, Hamilton, OH, Warren, OH	
Clarksville-Hopkinsville, TN–KY	.7463
Christian, KY, Montgomery, TN	
Cleveland, OH	1.0793
Cuyahoga, OH, Geauga, OH, Lake, OH, Medina, OH	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Colorado Springs, CO	1.0016
El Paso, CO	
Columbia, MO	1.0346
Boone, MO	
Columbia, SC	.8425
Lexington, SC, Richland, SC	
Columbus, GA–AL	.7383
Russell, AL, Chattanoochee, GA, Muscogee, GA	
Columbus, OH	.9267
Delaware, OH, Fairfield, OH, Franklin, OH, Licking, OH, Madison, OH, Pickaway, OH, Union, OH	
Corpus Christi, TX	.8776
Nueces, TX, San Patricio, TX	
Cumberland, MD–WV	.8771
Allegeny, MD, Mineral, WV	
Dallas, TX	1.0075
Collin, TX, Dallas, TX, Denton, TX, Ellis, TX, Kaufman, TX, Rockwall, TX	
Danville, VA	.7598
Danville City, VA, Pittsylvania, VA	
Davenport-Rock Island-Moline, IA–IL	.9711
Scott, IA, Henry, IL, Rock Island, IL	
Dayton-Springfield, OH	1.0077
Clark, OH, Greene, OH, Miami, OH, Montgomery, OH	
Daytona Beach, FL	.8519
Volusia, FL	
Decatur, AL	.7277
Lawrence, AL, Limestone, AL, Morgan, AL	
Decatur, IL	.8939
Macon, IL	
Denver, CO	1.1898
Adams, CO, Arapahoe, CO, Denver, CO, Douglas, CO, Jefferson, CO	
Des Moines, IA	.9794
Dallas, IA, Polk, IA, Warren, IA	
Detroit, MI	1.0878
Lapeer, MI, Livingston, MI, Macomb, MI, Monroe, MI, Oakland, MI, Saint Clair, MI, Wayne, MI	
Dothan, AL	.7903
Dale, AL, Houston, AL	
Dubuque, IA	.9683
Duluth, MN–WI	.9447
St. Louis, MN, Douglas, WI	
Eau Claire, WI	.8877
Chippewa, WI, Eau Claire, WI	
El Paso, TX	.8823
Elkhart-Goshen, IN	.9114
Elkhart, IN	
Elmira, NY	.9125
Chemung, NY	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Enid, OK	.9097
Garfield, OK	
Erie, PA	.9459
Eugene-Springfield, OR	1.0322
Lane, OR	
Evansville, IN–KY	.9932
Posey, IN, Vanderburgh, IN, Warrick, IN, Henderson, KY	
Fargo-Moorhead, ND–MN	1.0000
Clay, MN, Cass, ND	
Fayetteville, NC	.7872
Cumberland, NC	
Fayetteville-Springdale, AR	.7471
Washington, AR	
Flint, MI	1.1423
Genesee, MI, Shiawassee, MI	
Florence, AL	.7234
Colbert, AL, Lauderdale, AL	
Florence, SC	.7448
Fort Collins-Loveland, CO	1.0221
Larimor, CO	
Fort Lauderdale-Hollywood-Pompano Beach, FL	1.0393
Broward, FL	
Fort Myers-Cape Coral, FL	.8962
Lee, FL	
Fort Pierce, FL	.9520
Martin, FL, St. Lucie, FL	
Fort Smith, AR–OK	.8700
Crawford, AR, Sebastian, AR, Sequoyah, OK	
Fort Walton Beach, FL	.8185
Okaloosa, FL	
Fort Wayne, IN	.8981
Allen, IN, De Kalb, IN, Whitley, IN	
Fort Worth-Arlington, TX	.9446
Johnson, TX, Parker, TX, Tarrant, TX	
Fresno, CA	1.0944
Gadsden, AL	.8368
Etowah, AL	
Gainesville, FL	.8875
Alachua, FL, Bradford, FL	
Galveston-Texas City, TX	1.0749
Galveston, TX	
Gary-Hammond, IN	1.0383
Lake, IN, Porter, IN	
Glens Falls, NY	.8863
Warren, NY, Washington, NY	
Grand Forks, ND	.9433
Grand Rapids, MI	1.0005
Kent, MI, Ottawa, MI	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Great Falls, MT	.9936
Cascade, MT	
Greeley, CO	1.0143
Weld, CO	
Green Bay, WI	.9662
Brown, WI	
Greensboro-Winston-Salem-High Point, NC	.8684
Davidson, NC, Davie, NC, Forsyth, NC, Guilford, NC, Randolph, NC, Stokes, NC, Yadkin, NC	
Greenville-Spartanburg, SC	.8804
Greenville, SC, Pickens, SC, Spartanburg, SC	
Hagerstown, MD	.8842
Washington, MD	
Hamilton-Middletown, OH	.9619
Butler, OH	
Harrisburg-Lebanon-Carlisle, PA	.9875
Cumberland, PA, Dauphin, PA, Lebanon, PA, Perry, PA	
Hartford-Middletown-New Britain-Bristol, CT	1.0864
Hartford, CT, Litchfield, CT, Middlesex, CT, Tolland, CT	
Hickory, NC	.8310
Alexander, NC, Burke, NC, Catawba, NC	
Honolulu, HI	1.1308
Houma-Thibodaux, LA	.8060
Lafourche, LA, Terrebonne, LA	
Houston, TX	.9835
Fort Bend, TX, Harris, TX, Liberty, TX, Montgomery, TX, Waller, TX	
Huntington-Ashland, WV–KY–OH	.9038
Boyd, KY, Carter, KY, Greenup, KY, Lawrence, OH, Cabell, WV, Wayne, WV	
Huntsville, AL	.7974
Madison, AL	
Indianapolis, IN	.9911
Boone, IN, Hamilton, IN, Hancock, IN, Hendricks, IN, Johnson, IN, Marion, IN, Morgan, IN, Shelby, IN	
Iowa City, IA	1.1596
Johnson, IA	
Jackson, MI	.9417
Jackson, MS	.8414
Hinds, MS, Madison, MS, Rankin, MS,	
Jackson, TN	.7484
Madison, TN	
Jacksonville, FL	.8896
Clay, FL, Duval, FL, Nassau, FL, St. Johns, FL	
Jacksonville, NC	.7336
Onslow, NC	
Janesville-Beloit, WI	.8908
Rock, WI	
Jersey City, NJ	1.0566
Hudson, NJ	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Johnson City-Kingsport-Bristol, TN–VA	.8420
Carter, TN, Hawkins, TN, Sullivan, TN, Unicoi, TN, Washington, TN, Bristol City, VA, Scott, VA, Washington, VA	
Johnstown, PA	.9032
Cambria, PA, Somerset, PA	
Joliet, IL	1.0475
Grundy, IL, Will, IL	
Joplin, MO	.8623
Jasper, MO, Newton, MO	
Kalamazoo, MI	1.1082
Kankakee, IL	.8961
Kansas City, KS–MO	1.0023
Johnson, KS, Leavenworth, KS, Miami, KS, Wyandotte, KS, Cass, MO, Clay, MO, Jackson, MO, Lafayette, MO, Platte, MO, Ray, MO	
Kenosha, WI	1.0352
Killeen-Temple, TX	.9755
Bell, TX, Coryell, TX	
Knoxville, TN	.8310
Anderson, TN, Blount, TN, Grainger, TN, Jefferson, TN, Knox, TN, Sevier, TN, Union, TN	
Kokomo, IN	.9323
Howard, IN, Tipton, IN	
LaCrosse, WI	.9600
Lafayette, LA	.9233
Lafayette, LA, St. Martin, LA	
Lafayette, IN	.8641
Tippecanoe, IN	
Lake Charles, LA	.9145
Calcasieu, LA	
Lake County, IL	1.0871
Lake, IL	
Lakeland-Winter Haven, FL	.8236
Polk, FL	
Lancaster, PA	.9836
Lancaster, PA	
Lansing-East Lansing, MI	1.0160
Clinton, MI, Eaton, MI, Ingham, MI	
Laredo, TX	.7499
Webb, TX	
Las Cruces, NM	.8336
Dona Ana, NM	
Las Vegas, NV	1.0839
Clark, NV	
Lawrence, KS	.9718
Douglas, KS	
Lawton, OK	.8554
Comanche, OK	
Lewiston-Auburn, ME	.9006
Androscoggin, ME	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Lexington-Fayette, KY Bourbon, KY, Clark, KY, Fayette, KY, Jessamine, KY, Scott, KY, Woodford, KY	.9199
Lima, OH Allen, OH, Auglaize, OH	.9133
Lincoln, NE Lancaster, NE	.9258
Little Rock-North Little Rock, AR Faulkner, AR, Lonoke, AR, Pulaski, AR, Saline, AR	.9363
Longview-Marshall, TX Gregg, TX, Harrison, TX	.8012
Lorain-Elyria, OH Lorain, OH	.9490
Los Angeles-Long Beach, CA Los Angeles, CA	1.2426
Louisville, KY–IN Clark, IN, Floyd, IN, Harrison, IN, Bullitt, KY, Jefferson, KY, Oldham, KY, Shelby, KY	.9491
Lubbock, TX	.9539
Lynchburg, VA Amherst, VA, Campbell, VA, Lynchburg City, VA	.8560
Macon-Warner Robins, GA Bibb, GA, Houston, GA, Jones, GA, Peach, GA	.8264
Madison, WI Dane, WI	1.0137
Manchester-Nashua, NH Hillsborough, NH, Merrimack, NH	.9174
Mansfield, OH Richland, OH	.8929
Mayaguez, PR Anasco, PR, Cabo Rojo, PR, Hormigueros, PR, Mayaguez, PR, San German, PR	.4813
McAllen-Edinburg-Mission, TX Hidalgo, TX	.7632
Medford, OR Jackson, OR	.9671
Melbourne-Titusville, FL Brevard, FL	.8835
Memphis, TN–AR–MS Crittenden, AR, De Soto, MS, Shelby, TN, Tipton, TN	.9616
Merced, CA	1.0703
Miami-Hialeah, FL Dade, FL	1.0120
Middlesex-Somerset-Hunterdon, NJ Hunterdon, NJ, Middlesex, NJ, Somerset, NJ	.9807
Midland, TX	1.0544
Milwaukee, WI Milwaukee, WI, Ozaukee, WI, Washington, WI, Waukesha, WI	1.0360

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Minneapolis-St. Paul, MN–WI	1.1181
Anoka, MN, Carver, MN, Chisago, MN, Dakota, MN, Hennepin, MN, Isanti, MN, Ramsey, MN, Scott, MN, Washington, MN, Wright, MN, St. Croix, WI	
Mobile, AL	.8294
Baldwin, AL, Mobile, AL	
Modesto, CA	1.1012
Stanislaus, CA	
Monmouth-Ocean, NJ	.9337
Monmouth, NJ, Ocean, NJ	
Monroe, LA	.8446
Ouachita, LA	
Montgomery, AL	.8137
Autauga, AL, Elmore, AL, Montgomery, AL	
Muncie, IN	.9536
Delaware, IN	
Muskegon, MI	.9590
Naples, FL	.9889
Collier, FL	
Nashville, TN	.8851
Cheatham, TN, Davidson, TN, Dickson, TN, Robertson, TN, Rutherford, TN, Sumner, TN, Williamson, TN, Wilson, TN	
Nassau-Suffolk, NY	1.2322
Nassau, NY, Suffolk, NY	
New Bedford-Fall River-Attleboro, MA	.9323
Bristol, MA	
New Haven-Waterbury-Meriden, CT	1.0660
New Haven, CT	
New London-Norwich, CT	1.0529
New London, CT	
New Orleans, LA	.9049
Jefferson, LA, Orleans, LA, St. Bernard, LA, St. Charles, LA, St. John The Baptist, LA, St. Tammany, LA	
New York, NY	1.3052
Bronx, NY, Kings, NY, New York City, NY, Putnam, NY, Queens, NY, Richmond, NY, Rockland, NY, Westchester, NY	
Newark, NJ	1.0775
Essex, NJ, Morris, NJ, Sussex, NJ, Union, NJ	
Niagara Falls, NY	.8466
Norfolk-Virginia Beach-Newport News, VA	.9168
Chesapeake City, VA, Gloucester, VA, Hampton City, VA, James City Co., VA, Newport News City, VA, Norfolk City, VA, Poquoson, VA, Portsmouth City, VA, Suffolk City, VA, Virginia Beach City, VA, Williamsburg City, VA, York, VA	
Oakland, CA	1.3980
Alameda, CA, Contra Costa, CA	
Ocala, FL	.8158
Marion, FL	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Odessa, TX	.8892
Ector, TX	
Oklahoma City, OK	1.0036
Canadian, OK, Cleveland, OK, Logan, OK, McClain, OK, Oklahoma, OK, Pottawatomie, OK	
Olympia, WA	1.0317
Thurston, WA	
Omaha, NE–IA	.9793
Pottawattamie, IA, Douglas, NE, Sarpy, NE, Washington, NE	
Orange County, NY	.8801
Orange, NY	
Orlando, FL	.9329
Orange, FL, Osceola, FL, Seminole, FL	
Owensboro, KY	.8333
Daviess, KY	
Oxnard-Ventura, CA	1.2965
Ventura, CA	
Panama City, FL	.7858
Bay, FL	
Parkersburg-Marietta, WV–OH	.8800
Washington, OH, Wood, WV	
Pascugoula, MS	.8902
Jackson, MS	
Pensacola, FL	.8215
Escambia, FL, Santa Rosa, FL	
Peoria, IL	.9807
Peoria, IL, Tazewell, IL, Woodford, IL	
Philadelphia, PA–NJ	1.0900
Burlington, NJ, Camden, NJ, Gloucester, NJ, Bucks, PA, Chester, PA, Delaware, PA, Montgomery, PA, Philadelphia, PA	
Phoenix, AZ	1.0061
Maricopa, AZ	
Pine Bluff, AR	.7743
Jefferson, AR	
Pittsburgh, PA	1.0206
Allegheny, PA, Fayette, PA, Washington, PA, Westmoreland, PA	
Pittsfield, MA	.9915
Berkshire, MA	
Ponce, PR	.5480
Juana Diaz, PR, Ponce, PR	
Portland, ME	.9432
Cumberland, ME, Sagadahoc, ME, York, ME	
Portland, OR	1.1258
Clackamas, OR, Multnomah, OR, Washington, OR, Yamhill, OR	
Portsmouth-Dover-Rochester, NH	.9085
Rockingham, NH, Strafford, NH	
Poughkeepsie, NY	.9567
Dutchess, NY	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Providence-Pawtucket-Woonsocket, RI	.9781
Bristol, RI, Kent, RI, Newport, RI, Providence, RI, Washington, RI	
Provo-Orem, UT	.9250
Utah, UT	
Pueblo, CO	.9892
Pueblo, CO	
Racine, WI	.9271
Raleigh-Durham, NC	.9246
Durham, NC, Franklin, NC, Orange, NC, Wake, NC	
Rapid City, SD	.8677
Pennington, SD	
Reading, PA	.9353
Berks, PA	
Redding, CA	1.0749
Shasta, CA	
Reno, NV	1.1168
Washoe, NV	
Richland-Kennewick, WA	.9658
Benton, WA, Franklin, WA	
Richmond-Petersburg, VA	.8907
Charles City Co., VA, Chesterfield, VA, Colonial Heights City, VA, Dinwiddie, VA, Goochland, VA, Hanover, VA, Henrico, VA, Hopewell City, VA, New Kent, VA, Petersburg City, VA, Powhatan, VA, Prince George, VA, Richmond City, VA	
Riverside-San Bernardino, CA	1.1502
Riverside, CA, San Bernardino, CA	
Roanoke, VA	.8291
Botetourt, VA, Roanoke, VA, Roanoke City, VA, Salem City, VA	
Rochester, MN	1.0223
Olmsted, MN	
Rochester, NY	.9416
Livingston, NY, Monroe, NY, Ontario, NY, Orleans, NY, Wayne, NY	
Rockford, IL	1.0215
Boone, IL Winnebago, IL	
Sacramento, CA	1.2140
Eldorado, CA, Placer, CA, Sacramento, CA, Yolo, CA	
Saginaw-Bay City-Midland, MI	1.0502
Bay, MI, Midland, MI, Saginaw, MI	
St. Cloud, MN	.9632
Benton, MN, Sherburne, MN, Stearns, MN	
St. Joseph, MO	.8784
Buchanan, MO	
St. Louis, MO–IL	1.0113
Clinton, IL, Jersey, IL, Madison, IL, Monroe, IL, St. Clair, IL, Franklin, MO, Jefferson, MO, St. Charles, MO, St. Louis, MO, St. Louis City, MO	
Salem, OR	1.0384
Marion, OR, Polk, OR	
Salinas-Seaside-Monterey, CA	1.2173
Monterey, CA	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Salt Lake City-Ogden, UT	.9480
Davis, UT, Salt Lake, UT, Weber, UT	
San Angelo, TX	.8277
Tom Green, TX	
San Antonio, TX	.8351
Bexar, TX, Comal, TX, Guadalupe, TX	
San Diego, CA	1.2313
San Francisco, CA	1.4902
Marin, CA, San Francisco, CA, San Mateo, CA	
San Jose, CA	1.4279
Santa Clara, CA	
San Juan, PR	.5369
Barcelona, PR, Bayoman, PR, Canovanas, PR, Carolina, PR, Catano, PR, Corozal, PR, Dorado, PR, Fajardo, PR, Florida, PR, Guaynabo, PR, Humacao, PR, Juncos, PR, Los Piedras, PR, Loiza, PR, Luguillo, PR, Manati, PR, Naranjito, PR, Rio Grande, PR, San Juan, PR, Toa Alta, PR, Toa Baja, PR, Trojillo Alto, PR, Vega Alta, PR, Vega Baja, PR	
Santa Barbara-Santa Maria-Lompoc, CA	1.1392
Santa Barbara, CA	
Santa Cruz, CA	1.1980
Santa Fe, NM	.9334
Los Alamos, NM, Santa Fe, NM	
Santa Rosa-Petaluma, CA	1.3232
Sonoma, CA	
Sarasota, FL	.8975
Savannah, GA	.8380
Chatham, GA, Effingham, GA	
Scranton-Wilkes Barre, PA	.9290
Columbia, PA	
Lackawanna, PA, Luzerne, PA, Monroe, PA, Wyoming, PA	
Seattle, WA	1.0868
King, WA, Snohomish, WA	
Sharon, PA	.9170
Mercer, PA	
Sheboygan, WI	.9289
Sherman-Denison, TX	.8259
Grayson, TX	
Shreveport, LA	.8967
Bossier, LA, Caddo, LA	
Sioux City, IA–NE	.9221
Woodbury, IA, Dakota, NE	
Sioux Falls, SD	.9523
Minnehaha, SD	
South Bend-Mishawaka, IN	.9576
St. Joseph, IN	
Spokane, WA	1.0790
Springfield, IL	.9871
Menard, IL, Sangamon, IL	

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Springfield, MO Christian, MO, Greene, MO	.9047
Springfield, MA Hampden, MA, Hampshire, MA	.9727
State College, PA Centre, PA	1.0272
Steubenville-Weirton, OH–WV Jefferson, OH, Brooke, WV, Hancock, WV	.9078
Stockton, CA San Joaquin, CA	1.1708
Syracuse, NY Madison, NY, Onondaga, NY, Oswego, NY	.9700
Tacoma, WA Pierce, WA	1.0294
Tallahassee, FL Gadsden, FL, Leon, FL	.8506
Tampa-St. Petersburg-Clearwater, FL Hernando, FL, Hillsborough, FL, Pasco, FL, Pinellas, FL	.9098
Terre Haute, IN Clay, IN, Vigo, IN	.8065
Texarkana-TX-Texarkana, AR Miller, AR, Bowie, TX	.8047
Toledo, OH Fulton, OH, Lucas, OH, Wood, OH	1.1069
Topeka, KS Shawnee, KS	.9759
Trenton, NJ	.9982
Tucson, AZ Pima, AZ	.9609
Tulsa, OK Creeks, OK, Osage, OK, Rogers, OK, Tulsa, OK, Wagoner, OK	.9319
Tuscaloosa, AL	.9471
Tyler, TX Smith, TX	.9298
Utica-Rome, NY Herkimer, NY, Oneida, NY	.8186
Vallejo-Fairfield-Napa, CA Napa, CA, Solano, CA	1.2408
Vancouver, WA Clark, WA	1.0740
Victoria, TX	.7968
Vineland-Millville-Bridgeton, NJ Cumberland, NJ	.9550
Visalia-Tulare-Porterville, CA Tulare, CA	1.1380
Waco, TX McLennan, TX	.8559

TABLE 25.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Washington, D.C.–MD–VA	1.0922
District of Columbia, DC, Calvert, MD, Charles, MD, Frederick, MD, Montgomery, MD, Prince Georges, MD, Alexandria City, VA, Arlington, VA, Fairfax, VA, Fairfax City, VA, Falls Church City, VA, Loudoun, VA, Manassas City, VA, Manassas Park City, VA, Prince William, VA, Stafford, VA	
Waterloo-Cedar Falls, IA	.9403
Black Hawk, IA, Bremer, IA	
Wausau, WI	.9428
Marathan, WI	
West Palm Beach-Boca Raton-Delray Beach, FL	.9402
Palm Beach, FL	
Wheeling, WV–OH	.8848
Belmont, OH, Marshall, WV, Ohio, WV	
Wichita, KS	1.0438
Butler, KS, Harvey, KS, Sedgwick, KS	
Wichita Falls, TX	.8264
Wichita, TX	
Williamsport, PA	.8845
Lycoming, PA	
Wilmington, DE–NJ–MD	1.0093
New Castle, DE, Cecil, MD, Salem, NJ	
Wilmington, NC	.8577
New Hanover, NC	
Worcester-Fitchburg-Leominster, MA	.9431
Worcester, MA	
Yakima, WA	.9820
York, PA	.9312
Adams, PA, York, PA	
Youngstown-Warren, OH	.9912
Mahoning, OH, Trumball, OH	
Yuba City, CA	.9939
Sutter, CA, Yuba, CA	

TABLE 26.—WAGE INDEX FOR RURAL AREAS

Nonurban area	Wage index	Nonurban area	Wage index
Alabama	0.6926	Nebraska	.7728
Alaska	1.3880	Nevada	.9789
Arizona	.8753	New Hampshire	.8765
Arkansas	.7100	New Jersey [1]	
California	1.0397	New Mexico	.8335
Colorado	.8640	New York	.8129
Connecticut	.9982	North Carolina	.7626
Delaware	.8211	North Dakota	.8437
Florida	.8007	Ohio	.8570
Georgia	.7363	Oklahoma	.7914
Hawaii	.9172	Oregon	.9999
Idaho	.8302	Pennsylvania	.8788
Illinois	.8171	Puerto Rico	.5377
Indiana	.8073	Rhode Island [1]	
Iowa	.8046	South Carolina	.7280
Kansas	.7922	South Dakota	.7645
Kentucky	.7730	Tennessee	.7140
Louisiana	.7818	Texas	.7623
Maine	.8166	Utah	.8756
Maryland	.8088	Vermont	.8362
Massachusetts	1.0003	Virginia	.7747
Michigan	.8968	Virgin Islands [1]	
Minnesota	.8578	Washington	.9767
Mississippi	.7193	West Virginia	.8387
Missouri	.7626	Wisconsin	.8395
Montana	.8532	Wyoming	.9072

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[1] All counties within the State are classified urban.

TABLE 27.—LIST OF DIAGNOSIS RELATED GROUPS (DRG'S), FISCAL YEARS 1987, 1988, AND 1989 RELATIVE WEIGHTING FACTORS AND OUTLIER THRESHOLD USED IN THE PROSPECTIVE PAYMENT SYSTEM

DRG	MDC	Type	Title	Relative weighting factors			Outlier threshold	
				1987	1988	1989	(A)	(B)
1	1	Surg	Craniotomy age greater than 17 except for trauma	3.5610	3.4434	3.4873	36	38
2	1	Surg	Craniotomy for trauma age greater than 17	3.8111	3.8160	4.1406	35	37
3	1	Surg	Craniotomy age 0–17	2.9183	2.9183	2.9183	34	37
4	1	Surg	Spinal procedures	2.7296	2.5904	2.6837	34	36
5	1	Surg	Extracranial vascular procedures	1.6508	1.5685	1.5585	21	30
6	1	Surg	Carpal tunnel release	.4073	.4393	.4496	8	16
7	1	Surg	Periph and cranial nerve and other nerv syst proc with CC	1.3866	2.5269	2.8433	34	36
8	1	Surg	Periph and cranial nerve and other nerv syst proc without CC	.7464	.7367	.7432	20	27
9	1	Med	Spinal disorders and injuries	1.4235	1.2639	1.2857	29	31
10	1	Med	Nervous system neoplasms with CC	1.1322	1.2123	1.2443	30	32
11	1	Med	Nervous system neoplasms without CC	.9338	.7729	.7852	27	29
12	1	Med	Degenerative nervous system disorders	1.0001	.9459	.9296	29	31
13	1	Med	Multiple sclerosis and cerebellar ataxia	.9790	9324	.9281	29	31
14	1	Med	Specific cerebrovascular disorders except TIA	1.3143	1.2429	1.2348	29	31
15	1	Med	Transient ischemic attack and precerebral occlusions	.6241	.6293	.6333	17	28
16	1	Med	Nonspecific cerebrovascular disorders with CC	.9042	1.0384	1.0512	29	31
17	1	Med	Nonspecific cerebrovascular disorders without CC	.6802	.6358	.6302	20	29
18	1	Med	Cranial and peripheral nerve disorders with CC	.7566	.9557	.9585	28	30
19	1	Med	Cranial and peripheral nerve disorders without CC	.6549	.6158	.6085	22	28
20	1	Med	Nervous system infection except viral meningitis	1.4087	1.6220	1.7083	30	32
21	1	Med	Viral meningitis	1.3143	1.3613	1.3601	29	31
22	1	Med	Hypertensive encephalopathy	.7086	.7055	.7025	18	29
23	1	Med	Nontraumatic stupor and coma	1.1239	.9505	.9441	27	29
24	1	Med	Seizure and headache age greater than 17 with CC	.7642	.9228	.9528	25	29
25	1	Med	Seizure and headache age greater than 17 without CC	.5520	.5386	.5332	15	28
26	1	Med	Seizure and headache age 0–17	.6255	.5635	.9116	20	27
27	1	Med	Traumatic stupor and coma, coma greater than 1 HR	1.5645	1.4753	1.6526	27	29
28	1	Med	Traumatic stupor and coma, coma greater than 1 HR age greater than 17 with CC	.9422	1.1694	1.2170	28	30
29	1	Med	Traumatic stupor and coma, coma less than 1 HR age greater than 17 without CC	.6462	.5856	.5937	20	28
30	1	Med	Traumatic stupor and coma, coma less than 1 HR age 0–17	.3539	.3539	.3539	8	17
31	1	Med	Concussion age greater than 17 with CC	.5381	.6550	.6667	22	28

32	1	Med	Concussion age greater than 17 without CC	.4064	.4005	.4063	13	27
33	1	Med	Concussion age 0–17	.2457	.2457	.2457	5	9
34	1	Med	Other disorders of nervous system with CC	.9761	1.2038	1.2705	28	30
35	1	Med	Other disorders of nervous system without CC	.7383	.6035	.5770	19	28
36	2	Surg	Retinal procedures	.7101	.6820	.6571	9	16
37	2	Surg	Orbital procedures	.6687	.7104	.7274	15	27
38	2	Surg	Primary iris procedures	.3963	.3779	.3692	9	17
39	2	Surg	Lens procedures with or without vitrectomy	.5719	.5167	.4722	5	7
40	2	Surg	Extraocular procedures except orbit age greater than 17	.4133	.4675	.4763	8	18
41	2	Surg	Extraocular procedures except orbit age 0–17	.3657	.3657	.3657	4	7
42	2	Surg	Intraocular procedures retina, iris and lens	.6542	.6600	.6424	9	17
43	2	Med	Hyphema	.3461	.3727	.3699	16	28
44	2	Med	Acute major eye infections	.6395	.6352	.6346	20	30
45	2	Med	Neurological eye disorders	.5407	.5595	.5532	14	27
46	2	Med	Other disorders of the eye age greater than 17 with CC	.6009	.6195	.6321	24	28
47	2	Med	Other disorders of the eye age greater than 17 without CC	.4187	.3611	.3652	13	27
48	2	Med	Other disorders of the eye age 0–17	.4018	.4018	.4018	14	27
49	3	Surg	Major head and neck procedures	2.8742	2.8923	2.8418	33	35
50	3	Surg	Sialoadenectomy	.7033	.6681	.6448	9	17
51	3	Surg	Salivary gland procedures except sialoadenectomy	.5878	.5424	.5708	9	16
52	3	Surg	Cleft lip and palate repair	.6955	.7033	.8499	16	27
53	3	Surg	Sinus and mastoid procedures age greater than 17	.6175	.6159	.6172	10	20
54	3	Surg	Sinus and mastoid procedures age 0–17	.6889	.6889	.6889	11	22
55	3	Surg	Miscellaneous ear, nose and throat procedures	.4342	.4598	.4613	6	12
56	3	Surg	Rhinoplasty	.4357	.4471	.4684	7	13
57	3	Surg	T&A proc, except tonsillectomy and/or adenoidectomy only, age greater than 17	.7717	.7907	.9321	25	28
58	3	Surg	T&A proc, except tonsillectomy and/or adenoidiectomy only, age 0–17	.3097	.3097	.3097	3	4
59	3	Surg	Tonsillectomy and/or adenoidectomy only, age greater than 17	.4130	.3845	.3901	6	10
60	3	Surg	Tonsillectomy and/or adenoidectomy only, age 0–17	.2616	.2616	.2616	3	4
61	3	Surg	Myringotomy with tube insertion age greater than 17	.4273	.5401	.7994	20	27
62	3	Surg	Myringotomy with tube insertion age 0–17	.3089	.3089	.3089	3	5
63	3	Surg	Other ear, nose and throat O.R. procedures	1.1618	1.1538	1.1811	26	28
64	3	Med	Ear, nose and throat malignancy	.9769	1.0548	1.0883	27	29
65	3	Med	Dysequilibrium	.4500	.4600	.4557	12	23
66	3	Med	Epistaxis	.4144	.4272	.4394	13	25
67	3	Med	Epiglottitis	.9363	.9964	1.0470	20	29
68	3	Med	Otitis media and uri age greater than 17 with CC	.6088	.7217	.7806	19	29
69	3	Med	Otitis media and uri age greater than 17 without CC	.5040	.5366	.5349	14	27
70	3	Med	Otitis media and uri age 0–17	.5251	.5345	.5853	14	27

TABLE 27.—LIST OF DIAGNOSIS RELATED GROUPS (DRG'S), FISCAL YEARS 1987, 1988, AND 1989 RELATIVE WEIGHTING FACTORS AND OUTLIER THRESHOLD USED IN THE PROSPECTIVE PAYMENT SYSTEM—Continued

DRG	MDC	Type	Title	Relative weighting factors			Outlier threshold	
				1987	1988	1989	(A)	(B)
71	3	Med	Laryngotracheitis	.6582	.6026	.8933	22	28
72	3	Med	Nasal trauma and deformity	.5216	.4895	.5256	16	27
73	3	Med	Other ear, nose and throat diagnoses age greater than 17	.6045	.7404	.7629	23	28
74	3	Med	Other ear, nose and throat diagnoses age 0–17	.3427	.3427	.3427	9	20
75	4	Surg	Major chest procedures	2.9776	3.0258	3.0335	34	36
76	4	Surg	Other resp system O.R. procedures with CC	2.5663	2.0885	2.4324	32	34
77	4	Surg	Other resp system O.R. procedures without CC	1.6734	1.0970	1.0488	26	28
78	4	Med	Pulmonary embolism	1.4798	1.4817	1.4685	31	33
79	4	Med	Respiratory infections and inflammations age greater than 17 with CC	1.9344	2.0777	2.0375	32	34
80	4	Med	Respiratory infections and inflammations age greater than 17 without CC	1.4387	1.3341	1.2339	29	31
81	4	Med	Respiratory infections and inflammations age 0–17	.8652	1.1032	1.1032	27	30
82	4	Med	Respiratory neoplasms	1.1258	1.1899	1.2367	29	31
83	4	Med	Major chest trauma with CC	.8397	.9698	1.0107	28	30
84	4	Med	Major chest trauma without CC	.5920	.5372	.5214	17	28
85	4	Med	Pleural effusion with CC	1.1196	1.1451	1.1663	29	31
86	4	Med	Pleural effusion without CC	.9761	.7720	.7357	22	29
87	4	Med	Pulmonary edema and respiratory failure	1.8076	1.5691	1.5108	28	30
88	4	Med	Chronic obstructive pulmonary disease	1.0768	1.1263	1.1210	25	30
89	4	Med	Simple pneumonia and pleurisy age greater than 17 with CC	1.1657	1.2862	1.2695	29	31
90	4	Med	Simple pneumonia and pleurisy age greater than 17 without CC	.8842	.8961	.8268	19	30
91	4	Med	Simple pneumonia and pleurisy age 0–17	.7914	.9448	.7603	15	28
92	4	Med	Interstitial lung disease with CC	1.1115	1.2821	1.3142	29	31
93	4	Med	Interstitial lung disease without CC	.8641	.8264	.8364	24	29
94	4	Med	Pneumothorax with CC	1.3044	1.3954	1.3972	29	31
95	4	Med	Pneumothorax without CC	.8796	.7571	.7104	20	29
96	4	Med	Bronchitis and asthma age greater than 17 with CC	.8446	.9804	1.0137	21	30
97	4	Med	Bronchitis and asthma age greater than 17 without CC	.7091	.7151	.7076	15	27
98	4	Med	Bronchitis and asthma age 0–17	.7201	.5744	.6356	14	27
99	4	Med	Respiratory signs and symptoms with CC	.8072	.7803	.7450	17	28
100	4	Med	Respiratory signs and symptoms without CC	.6253	.5238	.5080	10	19
101	4	Med	Other respiratory system diagnoses with CC	.8460	.9585	.9841	26	29
102	4	Med	Other respiratory system diagnoses without CC	.6841	.6625	.5818	17	28

103	5	Surg	Heart transplant	.0000	11.9225	14.7080	55	57
104	5	Surg	Cardiac value procedure with pump and with cardiac cath	7.3151	7.3424	7.5631	40	42
105	5	Surg	Cardiac value procedure with pump and without cardiac cath	6.3388	5.7811	5.9439	35	37
106	5	Surg	Coronary bypass with cardiac cath	5.3324	5.5415	5.5493	36	38
107	5	Surg	Coronary bypass without cardiac cath	4.6608	4.2858	4.2102	28	35
108	5	Surg	Other cardiothoracic or vascular procedures, with pump	4.7803	5.3703	5.5817	33	35
109	5	Surg	Other cardiothoracic procedures without pump	4.3579	3.9142	3.7756	29	31
110	5	Surg	Major reconstructive vascular proc without pump with CC	3.3118	3.6718	3.6677	35	37
111	5	Surg	Major reconstructive vascular proc without pump without CC	2.4549	2.2639	2.1617	27	33
112	5	Surg	Vascular procedures except major reconstruciton without pump	2.2055	1.8911	1.9042	28	30
113	5	Surg	Amputation for circ system disorders except upper limb and toe	2.5345	2.4590	2.4673	37	39
114	5	Surg	Upper limb and toe amputation for circ system disorders	1.8918	1.7040	1.7145	32	34
115	5	Surg	Perm cardiac pacemaker implant with ami, heart failure or shock	4.1727	4.0516	3.9800	35	37
116	5	Surg	Perm cardiac pacemarker implant without ami heart failure or shock	2.9868	2.7694	2.6632	25	30
117	5	Surg	Cardiac pacemaker replace and revis except pulse gen replacement	1.2989	1.2261	1.2223	23	29
118	5	Surg	Cardiac pacemaker pulse generator replacement	1.9224	1.7563	1.6529	13	27
119	5	Surg	Vein ligation and stripping	.9164	.8692	.8264	23	28
120	5	Surg	Other circulatory system O.R. procedures	2.2577	2.4776	2.7403	33	35
121	5	Med	Circulatory disorders with ami and C.V. comp, disch alive	1.7687	1.7162	1.6545	31	33
122	5	Med	Circulatory disorders without ami without C.V. comp, disch alive	1.3267	1.2002	1.1455	26	31
123	5	Med	Circulatory disorders without ami, expired	1.3522	1.3979	1.4232	25	27
124	5	Med	Circulatory disorders except ami, with card cath and complex diag	1.2551	1.1806	1.1854	24	28
125	5	Med	Circulatory disorders except ami, with card cath without complex diag	.7265	.6884	.6823	10	20
126	5	Med	Acute and subacute endocarditis	2.9836	3.0575	3.0532	39	41
127	5	Med	Heart failure and shock	1.0098	1.0222	1.0365	26	30
128	5	Med	Deep vein thromophlebitis	.8456	.8513	.8359	22	32
129	5	Med	Cardiac arrest, unexplained	1.7199	1.5715	1.5132	25	27
130	5	Med	Peripheral vascular disorders with CC	.8251	.8776	.8896	28	30
131	5	Med	Peripheral vascular disorders without CC	.6705	.5862	.5886	24	28
132	5	Med	Atherosclerosis with CC	.8037	.7976	.7738	19	28
133	5	Med	Atherosclerosis without CC	.7049	.5997	.5624	14	27
134	5	Med	Hypertension	.6363	.6088	.6026	17	28
135	5	Med	Cardiac congenital and valvular disorders age greater than 17 with CC	.8937	.9221	.8927	24	29
136	5	Med	Cardiac congenital and valvular disorders age greater than 17 without CC	.7525	.6103	.5713	14	28
137	5	Med	Cardiac congenital and valvular disorders age 0–17	.6315	.6315	.6315	21	27
138	5	Med	Cardiac arrhythmia and conduction disorders with CC	.8136	.8535	.8488	20	29
139	5	Med	Cardiac arrhythmia and conduction disorders without CC	.6514	.5912	.5742	14	27
140	5	Med	Angina pectoris	.6894	.6689	.6559	14	26
141	5	Med	Syncope and collapse with CC	.6187	.6801	.6882	18	28

TABLE 27.—LIST OF DIAGNOSIS RELATED GROUPS (DRG'S), FISCAL YEARS 1987, 1988, AND 1989 RELATIVE WEIGHTING FACTORS AND OUTLIER THRESHOLD USED IN THE PROSPECTIVE PAYMENT SYSTEM—Continued

DRG	MDC	Type	Title	Relative weighting factors			Outlier threshold	
				1987	1988	1989	(A)	(B)
142	5	Med	Syncope and collapse without CC	.5335	.5244	.5203	13	24
143	5	Med	Chest pain	.5893	.5500	.5397	11	20
144	5	Med	Other circulatory system diagnoses with CC	1.1160	1.1449	1.1483	28	30
145	5	Med	Other circulatory system diagnoses without CC	.8475	.6689	.6434	16	28
146	6	Surg	Rectal resection with CC	3.0751	3.4379	2.7773	36	38
147	6	Surg	Rectal resection without CC	2.2735	2.1344	1.8664	26	35
148	6	Surg	Major small and large bowel procedures with CC	2.9401	3.2376	3.2745	37	39
149	6	Surg	Major small and large bowel procedures without CC	2.1069	1.8341	1.7756	23	34
150	6	Surg	Peritoneal adhesiolysis with CC	2.3426	2.6797	2.7173	35	37
151	6	Surg	Peritoneal adhesiolysis without CC	1.5900	1.4885	1.4527	25	33
152	6	Surg	Minor small and large bowel procedures with CC	1.4059	1.5988	1.4807	30	32
153	6	Surg	Minor small and large bowel procedures without CC	1.0992	1.0566	1.0636	21	31
154	6	Surg	Stomach, esophageal and duodenal procedures age greater than 17 with CC	2.6876	3.7961	3.8125	35	37
155	6	Surg	Stomach, esophageal and duodenal procedures age greater than 17 without CC	1.7902	1.8195	1.7209	30	32
156	6	Surg	Stomach, esopohageal and duodenal procedures age 0–17	.8382	.8382	.8382	21	30
157	6	Surg	Anal and stomal procedures with CC	.7302	.9324	.9779	25	30
158	6	Surg	Anal and stomal procedures without CC	.5511	.5449	.5287	12	25
159	6	Surg	Hernia procedures except inguinal and femoral age greater than 17 with CC	.9997	1.1454	1.1103	23	30
160	6	Surg	Hernia procedures except inguinal and femoral age greater than 17 without CC	.7457	.6810	.6585	13	25
161	6	Surg	Inguinal and femoral hernia procedures age greater than 17 with CC	.6536	.7541	.7331	16	28
162	6	Surg	Inguinal and femoral hernia procedures age greater than 17 without CC	.5261	.5004	.4714	8	15
163	6	Surg	Hernia procedures age 0–17	.9647	.7717	.9388	23	29
164	6	Surg	Appendectomy with complicated principal diag with CC	2.0646	2.4014	2.4065	31	35
165	6	Surg	Appendectomy with complicated principal diag without CC	1.4375	1.4675	1.4236	18	27
166	6	Surg	Appendectomy without complicated principal diag with CC	1.3604	1.4954	1.4556	23	31
167	6	Surg	Appendectomy without complicated principal diag without CC	.8872	.8651	.8008	11	18
168	6	Surg	Mouth procedures with CC	.9182	1.4067	.9713	24	28
169	6	Surg	Mouth procedures without CC	.6580	.6689	.5320	9	19
170	6	Surg	Other digestive system O.R. procedures with CC	2.7611	2.7316	2.7677	33	35
171	6	Surg	Other digestive system O.R. procedures without CC	2.3295	1.4018	1.3797	29	31
172	6	Med	Digestive malignancy with CC	1.0748	1.1861	1.2026	29	31
173	6	Med	Digestive malignancy without CC	.9602	.7049	.7004	25	28

174	6	Med	G.I. hemorrhage with CC	.9073	.9878	.9816	23	30
175	6	Med	G.I. hemorrhage without CC	.7067	.6600	.6376	14	26
176	6	Med	Complicated peptic ulcer	.9316	.9964	.9927	25	30
177	6	Med	Uncomplicated peptic ulcer with CC	.6615	.7834	.7733	18	29
178	6	Med	Uncomplicated peptic ulcer without CC	.5554	.5838	.5684	13	23
179	6	Med	Inflammatory bowel disease	.9875	1.0416	1.0929	29	31
180	6	Med	G.I. obstruction with CC	.7583	.9150	.9165	27	30
181	6	Med	G.I. obstruction without CC	.5827	.5415	.5340	15	28
182	6	Med	Esophagitis, gastroent and misc digest disorders age greater than 17 with CC	.6032	.7224	.7386	19	29
183	6	Med	Esophagitis, gastroent and misc digest disorders age greater than 17 without CC	.5104	.5252	.5284	14	27
184	6	Med	Esophagitis, gastroent and misc digest disorders age 0–17	.4828	.4223	.6446	16	27
185	6	Med	Dental and oral dis except extractions and restorations, age greater than 17	.7147	.7530	.7488	23	28
186	6	Med	Dental and oral dis except extractions and restorations, age 0–17	.4112	.4112	.4112	11	23
187	6	Med	Dental extractions and restorations	.4209	.4540	.4579	8	16
188	6	Med	Other digestive system diagnoses age greater than 17 with CC	.7171	.9144	.9575	27	29
189	6	Med	Other digestive system diagnoses age greater than 17 without CC	.5260	.4966	.4872	15	27
190	6	Med	Other digestive system diagnoses age 0–17	.9178	.8147	.7933	19	28
191	7	Surg	Major pancreas, liver and shunt procedures	4.4603	4.6881	5.3135	40	42
192	7	Surg	Minor pancreas, liver and shunt procedures	4.0437	3.8625	2.4801	34	36
193	7	Surg	Biliary tract proc except tot cholecystectomy with CC	2.8115	3.0252	3.0566	37	39
194	7	Surg	Biliary tract proc except tot cholecystectomy without CC	2.1204	1.8505	1.8809	33	35
195	7	Surg	Total cholecystectomy with c.d.e. with CC	2.2724	2.3854	2.3363	32	36
196	7	Surg	Total cholecystectomy with c.d.e. without CC	1.5974	1.6898	1.5628	21	31
197	7	Surg	Total cholecystectomy without c.d.e. with CC	1.7055	1.8768	1.7757	26	33
198	7	Surg	Total cholecystectomy without c.d.e. without CC	1.1399	1.1152	1.0456	15	22
199	7	Surg	Hepatobiliary diagnostic procedure for malignancy	2.3379	2.2693	2.2894	34	34
200	7	Surg	Hepatobiliary diagnostic procedure for non-malignancy	2.6281	2.4731	2.6844	32	33
201	7	Surg	Other hepatobiliary or pancreas o.r. procedures	2.7125	2.3933	2.4875	31	31
202	7	Med	Cirrhosis and alcoholic hepatitis	1.1665	1.2075	1.2400	29	31
203	7	Med	Malignancy of hepatobiliary system or pancreas	1.0338	1.0422	1.0904	29	....
204	7	Med	Disorders of pancreas except malignancy	.9698	1.0269	1.0266	24	30
205	7	Med	Disorders of liver except malig, cirr, alc hepa with CC	1.0718	1.2132	1.2386	29	31
206	7	Med	Disorders of liver except malig, cirr, alc hepa without CC	.7735	.6806	.6406	23	28
207	7	Med	Disorders of the biliary tract with CC	.7775	.9243	.9574	24	30
208	7	Med	Disorders of the biliary tract without CC	.8793	.5816	.5798	15	28
209	8	Surg	Major joint and limb reattachment procedures	2.3925	2.4145	2.3829	27	36
210	8	Surg	Hip and femur procedures except major joint age greater than 17 with CC	2.0317	2.1776	2.1237	35	37
211	8	Surg	Hip and femur procedures except major joint age greater than 17 without CC	1.7866	1.6104	1.5418	26	35
212	8	Surg	Hip and femur procedures except major joint age 0–17	1.6608	1.3764	1.4611	29	31

TABLE 27.—LIST OF DIAGNOSIS RELATED GROUPS (DRG'S), FISCAL YEARS 1987, 1988, AND 1989 RELATIVE WEIGHTING FACTORS AND OUTLIER THRESHOLD USED IN THE PROSPECTIVE PAYMENT SYSTEM—Continued

DRG	MDC	Type	Title	Relative weighting factors			Outlier threshold	
				1987	1988	1989	(A)	(B)
213	8	Surg	Amputation for musculoskeletal system and conn tissue disorders	1.9750	1.8460	1.7667	32	34
214	8	Surg	Back and neck procedures with CC	1.8749	2.1385	2.0618	34	36
215	8	Surg	Back and neck procedures without CC	1.4275	1.3768	1.3053	24	32
216	8	Surg	Biopsies of musculoskeletal system and connective tissue	1.5565	1.5973	1.6331	30	32
217	8	Surg	Wnd debrid and skn grft exept hand, for muscskelet and tiss dis	2.3097	2.8155	2.9985	36	38
218	8	Surg	Lower extrem and humer proc except hip, foot, femur age greater than 17 with CC	1.3797	1.6224	1.5637	31	33
219	8	Surg	Lower extrem and humer proc except hip, foot, femur age greater than 17 without CC	1.0436	1.0186	.9848	20	30
220	8	Surg	Lower extrem and humer proc except hip, foot, femur age 0–17	.9242	.9242	.9242	26	29
221	8	Surg	Knee procedures with CC	1.0141	1.4523	1.5164	28	30
222	8	Surg	Knee procedures without CC	.7262	.7995	.8259	20	27
223	8	Surg	Major shoulder or elbow proc, or other upper extremity proc, with CC	1.2263	1.1202	1.0621	21	29
224	8	Surg	Shoulder, elbow or forearm proc, exc major joint proc, without CC	.6894	.6588	.6378	11	20
225	8	Surg	Foot procedures	.6552	.6775	.6972	16	27
226	8	Surg	Soft tissue procedures with CC	.8783	1.3570	1.3916	29	31
227	8	Surg	Soft tissue procedures without CC	.6673	.6878	.6656	15	27
228	8	Surg	Major thumb or joint proc, or oth hand or wrist proc, with CC	.6100	.8201	.8098	14	27
229	8	Surg	Hand or wrist proc, except major joint proc, without CC	.4993	.5202	.5153	8	16
230	8	Surg	Local excision and removal of int fix devices of hip and femur	1.0156	.8868	.8502	25	28
231	8	Surg	Local excision and removal of int fix devices except hip and femur	.7381	.8346	.8773	23	28
232	8	Surg	Arthroscopy	.6723	.8603	.9593	25	27
233	8	Surg	Other musculoskelet sys and conn tiss O.R. proc with CC	1.3898	1.7267	1.6745	31	33
234	8	Surg	Other musculoskelet sys and conn tiss O.R. proc without CC	.9517	.9057	.8595	22	29
235	8	Med	Fractures of femur	1.4136	1.2060	1.1956	30	32
236	8	Med	Fractures of hip and pelvis	1.0712	.9036	.8869	29	31
237	8	Med	Sprains, strains, and dislocations of hip, pelvis and thigh	.6049	.5959	.5724	21	29
238	8	Med	Osteomyelitis	1.6471	1.6579	1.6503	33	35
239	8	Med	Pathological fractures and musculoskeletal and conn tiss malignancy	.9268	.9550	.9787	30	32
240	8	Med	Connective tissue disorders with CC	.9047	1.0932	1.1186	29	31
241	8	Med	Connective tissue disorders without CC	.7463	.6644	.6354	21	29
242	8	Med	Septic arthritis	1.4562	1.4100	1.3247	31	33
243	8	Med	Medical back problems	.6840	.6694	.6560	26	29
244	8	Med	Bone diseases and specific arthropathies with CC	.6742	.7305	.7181	26	30

245	8	Med	Bone diseases and specific arthropathies without CC	.6400	.5345	.5214	18	28
246	8	Med	Non-specific arthropathies	.5935	.5769	.5672	18	29
247	8	Med	Signs and symptoms of musculoskeletal system and conn tissue	.5793	.5407	.5365	18	28
248	8	Med	Tendonitis myositis and bursitis	.5892	.6097	.6176	20	28
249	8	Med	Aftercare musculoskeletal system and connective tissue	.7875	.6830	.6678	26	28
250	8	Med	Fx, sprn, strans and disl of forearm hand foot age greater than 17 with CC	.5158	.6721	.6679	24	28
251	8	Med	Fx, sprn, strans and disl of forearm hand foot age greater than 17 without CC	.4003	.4148	.4203	11	24
252	8	Med	Fx, sprn, strans and disl of uparm lowleg ex foot age 0–17	.3496	.3496	.3496	7	15
253	8	Med	Fx, sprn, strans and disl of uparm lowleg ex foot age greater than 17 with CC	.6321	.7909	.7831	28	30
254	8	Med	Fx, sprn, strans and of parm lowleg ex foot age greater than 17 without CC	.4929	.4557	.4426	18	28
255	8	Med	Fx, sprn, strans and disl or uparm lowleg ex foot age 0–17	.4638	.4638	.4638	16	27
256	8	Med	Other musculoskeletal system and connective tissue diagnoses	.6991	.6585	.6419	20	28
257	9	Surg	Total mastectomy for malignancy with CC	1.0630	1.0448	.9893	17	29
258	9	Surg	Total mastectomy for malignancy without CC	.9696	.8462	.7915	12	20
259	9	Surg	Subtotal mastectomy for malignancy with CC	.8605	1.0046	.9873	27	29
260	9	Surg	Subtotal mastectomy for malignancy without CC	.6659	.6010	.6023	11	21
261	9	Surg	Breast proc for non-malignancy except biopsy and local excision	.6104	.6204	.6377	9	17
262	9	Surg	Surg Breast biopsy and local excision for non/malignancy	.4252	.4312	.4375	7	12
263	9	Surg	Skin graft and or debrid for skn ulcer or cellulitis with CC	2.4173	2.5967	2.7018	38	40
264	9	Surg	Skin graft and or debrid for skn ulcer or cellulitis without CC	2.1798	1.6179	1.5881	33	35
265	9	Surg	Skin graft and or debrid except for skin ulcer or cellulitis with CC	1.3967	1.3909	1.4303	29	31
266	9	Surg	Skin graft and debrid except for skin ulcer or cellulitis without CC	.7313	.6865	.6895	19	27
267	9	Surg	Perianal and pilonidal procedures	.6360	.6248	.6068	16	27
268	9	Surg	Skin, subcutaneous tissue and breast plastic procedures	.5657	.5934	.6173	13	27
269	9	Surg	Other skin, subcut tiss and breast O.R. proc with CC	1.1334	1.5177	1.6854	30	32
270	9	Surg	Other skin, subcut tiss and breast O.R. proc without CC	.7622	.6834	.6966	19	27
271	9	Med	Skin ulcers	1.2612	1.2017	1.2174	31	33
272	9	Med	Major skin disorders with CC	.8524	1.0375	1.0366	29	31
273	9	Med	Major skin disorders without CC	.7971	.7247	.7079	26	30
274	9	Med	Malignant breast disorders with CC	1.0367	1.0494	1.0508	28	30
275	9	Med	Malignant breast disorders without CC	.9880	.6395	.5735	21	27
276	9	Med	Non-malignant breast disorders	.5677	.5245	.5320	17	31
277	9	Med	Cellulitis age greater than 17 with CC	.8861	.9695	.9624	25	30
278	9	Med	Cellulitis age greater than 17 without CC	.7582	.7063	.6829	18	24
279	9	Med	Cellulitis age 0–17	.4739	.7367	.7367	13	29
280	9	Med	Trauma to the skin, subcut tiss and breast age greater than 17 with CC	.5414	.6197	.6403	23	29
281	9	Med	Trauma to the skin subcut tiss and breast age greater than 17 without CC	.4467	.4306	.4249	15	27
282	9	Med	Trauma to the skin subcut tiss and breast age 0–17	.3424	.3424	.3424	9	19
283	9	Med	Minor skin disorders with CC	.6365	.7682	.7760	26	30

TABLE 27.—LIST OF DIAGNOSIS RELATED GROUPS (DRG'S), FISCAL YEARS 1987, 1988, AND 1989 RELATIVE WEIGHTING FACTORS AND OUTLIER THRESHOLD USED IN THE PROSPECTIVE PAYMENT SYSTEM—Continued

DRG	MDC	Type	Title	Relative weighting factors			Outlier threshold	
				1987	1988	1989	(A)	(B)
284	9	Med	Minor skin disorders without CC	.5170	.4795	.4839	18	28
285	10	Surg	Amputat of lower limb for endoc., nutrit, and metabol disorders	3.2719	2.9919	3.0283	40	42
286	10	Surg	Adrenal and pituitary procedures	2.6727	2.7063	2.5944	33	35
287	10	Surg	Skin grafts and wounds debrid for endoc, nutrit, and metab disorders	2.3776	2.2274	2.2201	36	38
288	10	Surg	O.R. procedures for obesity	2.1128	2.0018	2.0873	30	32
289	10	Surg	Parathyroid procedures	1.3304	1.1470	1.0952	20	29
290	10	Surg	Thyroid procedures	.8561	.8428	.8046	12	23
291	1	Surg	Thyroglossal procedures	.6072	.4991	.5103	7	14
292	10	Surg	Other endocrine, nutrit and metab O.R. proc with CC	2.3129	2.6027	2.7120	34	36
293	10	Surg	Other endocrine, nutrit and metab O.R. proc without CC	1.7960	1.1698	1.1954	29	31
294	10	Med	Diabetes age greater than 35	.7454	.7493	.7587	22	30
295	10	Med	Diabetes age 0–35	.7886	.7228	.7713	20	29
296	10	Med	Nutritional and misc metabolic disorders age greater than 17 with CC	.8271	.9259	.9396	28	30
297	10	Med	Nutritional and misc metabolic disorders age greater than 17 without CC	.6984	.5791	.5728	17	28
298	10	Med	Nutritional and misc metabolic disorders age 0–17	.7203	.7065	.6434	15	27
299	10	Med	Inborn effor of metabolism	.8041	.8271	.8451	27	29
300	10	Med	Endocrine disorders with CC	.9348	1.0862	1.1179	29	31
301	10	Med	Endocrine disorders without CC	.6882	.6758	.6420	21	29
302	11	Surg	Kidney transplant	4.6267	3.8463	3.7012	38	40
303	11	Surg	Kidney, ureter and major bladder procedures for neoplasm	2.7606	2.7747	2.7491	35	37
304	11	Surg	Kidney, ureter and major bladder proc for non-neopl with CC	2.0322	2.3651	2.4603	33	35
305	11	Surg	Kidney, ureter and major bladder proc for non-neopl without CC	1.4893	1.3665	1.3334	28	30
306	11	Surg	Prostatectomy with CC	1.2593	1.4376	1.4321	30	32
307	11	Surg	Prostatectomy without CC	.9585	.9121	.8634	17	29
308	11	Surg	Minor bladder procedures with CC	1.1487	1.5354	1.5480	29	31
309	11	Surg	Minor bladder procedures without CC	.8644	.8620	.8343	20	28
310	11	Surg	Transurethral procedures with CC	.7265	.9026	.9112	22	29
311	11	Surg	Transurethral procedures without CC	.5564	.5681	.5434	10	20
312	11	Surg	Urethral procedures, age greater than 17 with CC	.7307	.8246	.8282	22	28
313	11	Surg	Urethral procedures, age greater than 17 without CC	.5804	.5286	.5054	11	23
314	11	Surg	Urethral procedures, age 0–17	.4323	.4323	.4323	12	26
315	11	Surg	Other kidney and urinary tract O.R. procedures	2.7736	2.3635	2.4142	31	33

316	11	Med	Renal Failure	1.3210	1.2840	1.2811	28	30
317	11	Med	Admit for renal dialysis	.4907	.3542	.3494	9	19
318	11	Med	Kidney and urinary tract neoplasms with CC	.9216	1.0441	1.0683	28	30
319	11	Med	Kidney and urinary tract neoplasms without CC	.7415	.5777	.5777	17	27
320	11	Med	Kidney and urinary tract infections age greater than 17 with CC	.8626	1.0230	1.0427	26	31
321	11	Med	Kidney and urinary tract infections age greater than 17 without CC	.6750	.7316	.7247	18	29
322	11	Med	Kidney and urinary tract infections age 0–17 without CC	.6996	.6829	.7487	18	29
323	11	Med	Urinary stones with CC and/or esw lithotripsy	.5862	.7020	.7915	15	27
324	11	Med	Urinary stone without CC	.4096	.5139	.4034	9	12
325	11	Med	Kidney and urinary tract signs and symptoms age greater than 17 with CC	.6503	.6789	.6833	21	29
326	11	Med	Kidney and urinary tract signs and symptoms age greater than 17 without CC	.5156	.4553	.4357	13	26
327	11	Med	Kidney and urinary tract signs and symptoms age 0–17	.5511	.5511	.5511	15	27
328	11	Med	Urethral stricture age greater than 17 with CC	.5939	.6266	.6200	17	28
329	11	Med	Urethral stricture age greater than 17 without CC	.4870	.4431	.4227	10	21
330	11	Med	Urethral stricture age 0–17	.2788	.2788	.2788	5	9
331	11	Med	Other kidney and urinary tract diagnoses age greater than 17 with CC	.8329	.9050	.9143	27	29
332	11	Med	Other kidney and urinary tract diagnoses age greater than 17 with CC	.6725	.5913	.5636	18	27
333	11	Med	Other kidney and urinary tract diagnoses age 0–17	.7912	.6887	.6645	21	27
334	12	Surg	Major male pelvic procedures with CC	1.8035	1.9237	1.8513	27	35
335	12	Surg	Major male pelvic procedures without CC	1.4643	1.4080	1.3617	18	26
336	12	Surg	Transurethral prostatectomy with CC	.9869	1.0774	1.0162	18	30
337	12	Surg	Transurethral prostatectomy without CC	.7788	.7505	.6950	11	16
338	12	Surg	Testes procedures for malignancy	.8907	.7865	.7524	22	27
339	12	Surg	Testes procedures for non-malignancy age greater than 17	.5766	.5930	.5867	13	27
340	12	Surg	Testes procedures for non-malignancy age 0–17	.4335	.4335	.4335	7	13
341	12	Surg	Penis procedures	.9970	1.0294	.9828	15	28
342	12	Surg	Circumcision age greater than 17	.4265	.4494	.4489	9	20
343	12	Surg	Circumcision age 0–17	.3788	.3788	.3788	4	6
344	12	Surg	Other male reproductive system O.R. procedures for malignancy	1.1214	1.1302	1.0815	23	30
345	12	Surg	Other male reproductive system O.R. proc except for malignancy	.8173	.8284	.7907	21	28
346	12	Med	Malignancy, male reproductive system, with CC	.8568	.9360	.9178	28	30
347	12	Med	Malignancy, male reproductive system, without CC	.6441	.5091	.4833	13	27
348	12	Med	Benign prostatic hypertrophy with CC	.6257	.6588	.6717	21	28
349	12	Med	Benign prostatic hypertrophy without CC	.4853	.4059	.3870	9	17
350	12	Med	Inflammation of the male reproductive system	.6270	.6734	.6780	16	29
351	12	Med	Sterilization, male	.3333	.3333	.3333	3	5
352	12	Med	Other male reproductive system diagnoses	.5354	.4886	.5360	15	27
353	13	Surg	Pelvic evisceration, radical hysterectomy and radical vulvectomy	2.3887	2.2997	2.2704	35	37
354	13	Surg	Uterine, adnexa proc for non-ovarian/adnexal malig with CC	1.3563	1.5482	1.4985	23	33

TABLE 27.—LIST OF DIAGNOSIS RELATED GROUPS (DRG'S), FISCAL YEARS 1987, 1988, AND 1989 RELATIVE WEIGHTING FACTORS AND OUTLIER THRESHOLD USED IN THE PROSPECTIVE PAYMENT SYSTEM—Continued

DRG	MDC	Type	Title	Relative weighting factors			Outlier threshold	
				1987	1988	1989	(A)	(B)
355	13	Surg	Uterine, adnexa proc for non-ovarian/adnexal malig without CC	1.0359	.9929	.9453	12	17
356	13	Surg	Female reproductive system reconstructive procedures	.8470	.7983	.7596	13	20
357	13	Surg	Uterine and adnexa proc for ovarian or adnexal malig	2.1103	2.1591	2.2107	33	35
358	13	Surg	Uterine and adnexa proc for non-malignancy with CC	1.1152	1.2941	1.2466	19	30
359	13	Surg	Uterine and adnexa proc for non-malignancy without CC	.9462	.9025	.8525	11	15
360	13	Surg	Vagina, cervix and vulva procedures	.6338	.6957	.7439	21	28
361	13	Surg	Laparoscopy and incisional tubal interruption	.6594	.6442	.7185	16	27
362	13	Surg	Endoscopic tubal interruption	.3510	.4095	.3701	5	10
363	13	Surg	D&C, conization and radio-implant for malignancy	.6156	.6597	.6828	17	28
364	13	Surg	D&C, conization except for malignancy	.3921	.4262	.4411	9	18
365	13	Surg	Other female reproductive system O.R. procedures	1.9085	1.9060	1.9412	32	34
366	13	Med	Malignancy, female reproductive system with CC	.8624	1.0916	1.1233	28	30
367	13	Med	Malignancy, female reproductive system without CC	.5353	.5481	.5110	16	27
368	13	Med	Infections, female reproductive system	.7610	.8308	.8683	23	30
369	13	Med	Menstrual and other female reproductive system disorders	.5496	.4920	.5058	17	27
370	14	Surg	Cesarean section with CC	1.1063	1.0303	.9456	19	30
371	14	Surg	Cesarean section without CC	.7669	.7164	.7099	10	14
372	14	Med	Vaginal delivery with complicating diagnoses	.5942	.4927	.4442	11	20
373	14	Med	Vaginal delivery without complicating diagnoses	.3538	.3212	.3099	6	9
374	14	Surg	Vaginal delivery with sterilization and or D&C	.5754	.5641	.5542	7	11
375	14	Surg	Vaginal delivery with O.R. proc except steril and or D&C	.6817	.6817	.6817	16	28
376	14	Med	Postpartum and post abortion diagnoses without O.R. procedure	.4539	.3520	.3887	11	21
377	14	Surg	Postpartum and post abortion diagnoses with O.R. procedure	.7698	.9882	.6574	14	27
378	14	Med	Ectopic pregnancy	.7357	.7787	.7938	12	20
379	14	Med	Threatened abortion	.2409	.2843	.2956	9	18
380	14	Med	Abortion without D&C	.3792	.3124	.2531	6	11
381	14	Med	Abortion with D&C, aspiration curettage or hysterotomy	.3725	.3694	.3872	6	11
382	14	Med	False labor	.1136	.1309	.1242	3	5
383	14	Med	Other antepartum diagnoses with medical complications	.4452	.3964	.4416	18	28
384	14	Med	Other antepartum diagnoses without medical complications	.4586	.3512	.3200	12	25
385	15		Neonates, died or transferred to another acute care facility	.6811	1.2232	1.2232	15	26
386	15		Extreme immaturity or respiratory distress syndrome, neonate	3.6480	3.6480	3.6480	39	42

387	15		Prematurity with major problems	1.8267	1.8267	1.8267	34	37
388	15		Prematurity without major problems	1.1571	1.1571	1.1571	30	33
389	15		Full-term neonate with major problems	.5425	1.4127	1.7896	29	31
390	15		Neonate with other significant problems	.3486	.9416	1.1117	27	29
391	15		Normal newborn	.2218	.2218	.2218	7	11
392	16	Surg	Splenectomy age greater than 17	3.2488	3.5252	3.6972	35	37
393	16	Surg	Splenectomy age 0–17	1.5206	1.5206	1.5206	30	33
394	16	Surg	Other O.R. procedures of the blood and blood forming organs	1.0889	1.2250	1.4618	28	30
395	16	Med	Red blood cell disorders age greater than 17	.7153	.7264	.7427	23	29
396	16	Med	Red blood cell disorders age 0–17	.2952	.3441	.4539	10	24
397	16	Med	Coagulation disorders	.9969	1.0145	1.0426	23	30
398	16	Med	Reticuldendothelial and immunity disorders with CC	.9752	1.2115	1.2472	29	31
399	16	Med	Reticuldendothelial and immunity without CC	.7247	.6830	.6899	21	28
400	17	Surg	Lymphoma and leukemia with major O.R. procedure	3.1139	2.6900	2.7513	33	35
401	17	Surg	Lymphoma and non-acute leukemia with other O.R. proc with CC	1.9327	2.0871	2.1688	32	34
402	17	Surg	Lymphoma and non-acute leukemia with other O.R. proc without CC	1.0514	.9252	.9001	26	28
403	17	Med	Lymphoma and non-acute leukemia with CC	1.3493	1.5222	1.5824	30	32
404	17	Med	Lymphoma and non-acute leukemia without CC	.9101	.8085	.8024	27	29
405	17	Med	Acute leukemia without major O.R. procedure age 0–17	1.0407	1.0407	1.0407	26	29
406	17	Surg	Myeloprolif disord or poorly diff neopl with maj O.R. proc with CC	2.5302	2.7146	2.7843	35	37
407	17	Surg	Myeloprolif disord or poorly diff neopl with maj O.R. proc without CC	1.7124	1.4499	1.4537	29	31
408	17	Surg	Myeloprolif disord or poorly diff neopl with other O.R. proc	1.0500	.8955	.9274	24	28
409	17	Med	Radiotherapy	.9855	1.0802	1.0473	29	31
410	17	Med	Chemotherapy	.4284	.4742	.4811	10	20
411	17	Med	History of malignancy without endoscopy	.5907	.4919	.4733	13	27
412	17	Med	History of malignancy with endoscopy	.3388	.3954	.4334	10	21
413	17	Med	Other myeloprolif dis or poorly diff neopl diag with CC	1.0455	1.2385	1.2412	29	31
414	17	Med	Other myeloprolif dis or poorly diff neopl diag without CC	.8983	.8128	.7876	27	29
415	18	Surg	O.R. procedure for infectious and parasitic diseases	3.3287	3.5067	3.5992	37	39
416	18	Med	Septecemia age greater than 17	1.6182	1.5894	1.5896	30	32
417	18	Med	Septecemia age 0–17	1.1530	.9346	1.0354	27	30
418	18	Med	Postoperative and post-traumatic infections	1.0022	.9743	1.0188	29	31
419	18	Med	Fever of unknown origin age greater than 17 with CC	.9305	.9778	.9654	24	29
420	18	Med	Fever of unknown origin age greater than 17 without CC	.8316	.6949	.6760	17	28
421	18	Med	Viral illness age greater than 17	.5672	.6255	.6529	17	28
422	18	Med	Viral illness and fever of unknown origin age 0–17	.6583	.6274	.7780	20	....
423	18	Med	Other infectious and parasitic diseases diagnoses	1.3205	1.5333	1.6059	30	32
424	19	Surg	O.R. procedure with principal diagnoses of mental illness	2.2113	2.2176	2.2865	35	37
425	19	Med	Acute adjust react and disturbances of psychosocial dysfunction	.6090	.6004	.6215	22	28

TABLE 27.—LIST OF DIAGNOSIS RELATED GROUPS (DRG'S), FISCAL YEARS 1987, 1988, AND 1989 RELATIVE WEIGHTING FACTORS AND OUTLIER THRESHOLD USED IN THE PROSPECTIVE PAYMENT SYSTEM—Continued

DRG	MDC	Type	Title	Relative weighting factors			Outlier threshold	
				1987	1988	1989	(A)	(B)
426	19	Med	Depressive neuroses	.8332	.6580	.6286	28	30
427	19	Med	Neuroses except depressive	.7018	.6315	.5994	27	29
428	19	Med	Disorders of personality and impulse control	.8513	.7305	.7351	28	30
429	19	Med	Organic disturbances and mental retardation	.8419	.8868	.8932	29	31
430	19	Med	Psychoses	1.0760	.9329	.9089	31	33
431	19	Med	Childhood mental disorders	.6493	.7134	.7028	28	30
432	19	Med	Other mental disorder diagnoses	.6968	.7097	.7004	26	28
433	20		Alcohol/drug abuse or dependence, left AMA	.3906	.4232	.4110	21	27
434	20		ALC/drug abuse or dependence, detox or other sympt TRT with CC	.7096	.8149	.8095	28	30
435	20		ALC/drug abuse or dependence, detox or other sympt TRT without CC	.7978	.5903	.5738	27	29
436	20		ALC/drug dependence with rehabilitation therapy	1.0166	.9788	1.0164	33	35
437	20		ALC/drug dependence, combined rehab and detox therapy	1.3273	1.3306	1.2760	36	38
438	20		No longer valid	.0000	.0000	.0000	0	0
439	21	Surg	Skin grafts for injuries	1.6505	1.7523	1.7151	29	31
440	21	Surg	Wound debridements for injuries	2.0421	2.2498	2.4994	33	35
441	21	Surg	Hand procedures for injuries	.7303	.7185	.7038	14	26
442	21	Surg	Other O.R. procedures for injuries with CC	1.8143	1.9218	1.9165	28	30
443	21	Surg	Other O.R. procedures for injuries without CC	1.4841	1.2169	1.1903	26	28
444	21	Med	Multiple trauma age greater than 17 with CC	.7072	.8207	.7824	25	29
445	21	Med	Multiple trauma age greater than 17 without CC	.6014	.5183	.5207	17	28
446	21	Med	Multiple trauma age 0–17	.4796	.4796	.4796	10	22
447	21	Med	Allergic reactions age greater than 17	.4470	.4703	.4734	12	24
448	21	Med	Allergic reactions age 0–17	.3470	.3470	.3470	9	17
449	21	Med	Poisoning and toxic effects of drugs age greater than 17 with CC	.6951	.7922	.8077	22	28
450	21	Med	Poisoning and toxic effects of drugs age greater than 17 without CC	.5422	.4917	.4800	14	27
451	21	Med	Poisoning and toxic effects of drugs age 0–17	.5497	.5907	.4819	18	27
452	21	Med	Complications of treatment with CC	.8079	.8976	.9455	27	29
453	21	Med	Complications of treatment without CC	.7468	.5137	.5064	16	27
454	21	Med	Other injury, poisoning and toxic eff diag with CC	.8099	.9067	.8993	26	28
455	21	Med	Other injury, poisoning and toxic eff diag without CC	.6002	.4692	.4405	13	27
456	22		Burns, transferred to another acute care facility	1.8155	1.9811	1.5827	27	29
457	22		Extensive burns without O.R. procedure	3.2280	2.5317	2.6766	26	28

458	22	Surg	Non-extensive burns with skin graft	3.9450	3.7113	4.0349	39	41
459	22	Surg	Non-extensive burns with wound debridement or other O.R. proc	3.2658	1.7964	2.0305	32	34
460	22	Med	Non-extensive burns without O.R. procedure	1.1592	1.0495	1.0193	28	30
461	23	Surg	O.R. proc with diagnoses or other contact with health services	1.3548	.7198	.7333	17	26
462	23	Med	Rehabilitation	2.1404	1.7517	1.8085	36	38
463	23	Med	Signs and symptoms with CC	.7949	.7633	.7692	25	29
464	23	Med	Signs and symptoms without CC	.6952	.4740	.4831	15	27
465	23	Med	Aftercare with history of malignancy as secondary diagnosis	.2881	.3172	.3436	7	13
466	23	Med	Aftercare without history of malignancy as secondary diagnosis	.4152	.5383	.5566	20	27
467	23	Med	Other factors influencing health status	.7212	.4723	.4461	25	27
468	....		Unrelated operating room procedures	2.4516	2.4679	3.3045	35	37
459	....		Principal diagnosis invalid as discharge diagnosis	.0000	.0000	.0000	0	0
470	....		Ungroupable	.0000	.0000	.0000	0	0
471	8	Surg	Bilateral or multiple major joint procs of lower extremity	3.6991	4.0896	4.1503	39	41
472	22	Surg	Extensive burns with O.R. procedure	12.3234	10.7296	12.2265	41	43
473	17	Med	Acute leukemia without O.R. procedure age greater than 17	2.3275	2.7107	2.9296	31	33
474	4		Tracheostomy	NA	11.8772	12.3838	57	59
475	4	Med	Mechanical ventilation through endotrachial intubation	NA	3.1757	3.1437	31	33
476	....		Prostatic O.R. procedure unrelated to principal diagnosis	NA	NA	2.2225	37	39
477	....		Nonextensive O.R. procedure unrelated to principal diagnosis	NA	NA	1.3763	28	30

NA—Not applicable.

Source: ProPAC and Federal Register, Vol. 53, No. 190, Sept. 30, 1988.

APPENDIX E. MEDICARE REIMBURSEMENT TO PHYSICIANS

Medicare's basic fee-for-service payment system for physician services, modeled after reimbursement systems in use in the private sector, has remained relatively unchanged since the program's inception. Generally, separate payments are made for each individual service rendered.[1] The price Medicare recognizes for each service is based on what is known as the reasonable charge for the service. Reasonable charges are based, in part, on the actual submitted charges for the service, subject to certain limitations. Medicare generally pays 80 percent of the reasonable charge. The beneficiary is liable for 20 percent of the reasonable charge plus, in some cases, the difference between the actual charge and the reasonable charge.

This section describes the customary, prevailing, and reasonable (CPR) charge methodology used to determine the reasonable charge for physician services under Medicare. Limits on annual increases in reasonable charges, based on the Medicare Economic Index, are also described. This section defines the terms "assignment" and "participation" and describes how these policies affect beneficiaries' out-of-pocket liability for physician services. Over the past several years, Congress has enacted special reimbursement rules for certain services that depart from the general CPR system. These special rules and situations also are described.

DEFINITION OF "REASONABLE" OR "APPROVED" CHARGES

Medicare pays for physician services on a fee-for-service basis under which separate payments are made for each individual service rendered. The amount Medicare pays is based on the concept of *"reasonable charges."* Recently, HCFA has begun calling these charges *"approved charges."* Generally, the reasonable or approved charge for a service (in the absence of unusual circumstances) is the smallest of:

—the *actual charge* for the service by the physician;

—the physician's usual or *customary charge* for the service wherein the customary charge is usually defined as the median charge for that service by that physician during a preceding time period; and

—the *"prevailing charge"* for the same or similar services billed by all (or all similar) physicians in the locality (set at a level no higher than is necessary to cover the 75th percentile of physicians' customary charge for the service in the locality).

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[1] For example, physicians may bill separately for an initial office visit, a followup visit, and for each individual laboratory or x-ray service performed. While some surgeons are paid a single comprehensive fee (a so-called global fee) for all of their services related to single case, the majority of all claims are for small units of service.

Medicare generally pays 80 percent of the reasonable charges after the part B annual deductible of $75 is met. The beneficiary is responsible for 20 percent of the reasonable charge, often referred to as the coinsurance amount, and in certain circumstances for the difference between the actual and reasonable charge (see discussion of assignment below).

The customary and prevailing charge amounts are known as *"fee screens"* and are used to limit the amount Medicare pays for any individual service. Their purpose is to avoid paying unreasonably high fees for individual services by comparing a physician's actual charge to what he or she has billed other patients in the past, and to what other physicians charge for the same service. The use of fee screens to determine payment amounts has a long history in both public and private health insurance plans.

While customary charges are physician specific, the prevailing charges are defined by examining the charges of groups of physicians practicing within defined geographic localities. Carriers define which specialty groups are aggregated to determine prevailing charges; most carriers recognize different prevailing charges for different specialties for some, but not necessarily all, services. The carriers also define the prevailing charge localities. These localities are usually political or economic subdivisions of a State. In some cases (e.g., Colorado), a single prevailing charge locality is used for an entire State. There are about 240 prevailing charge localities nationwide.

UPDATING CUSTOMARY AND PREVAILING CHARGE SCREENS

Prior to July 1, 1984

Customary and prevailing charge fee screens (i.e., benchmarks against which individual charges are compared) were updated annually every July 1. Prior to the beginning of each fee screen year, the carriers determined each physician's new customary charges based on the actual charges submitted for each service during a preceding 12-month period. New prevailing charges for each service are then calculated based on the new customary charge screens. The customary and prevailing charge screens were then fixed for the duration of the fee screen year.

Since 1975, the annual update in the prevailing charge screens has been subject to an *economic index limitation.* This limitation (expressed as a maximum allowable percentage increase) is tied to an economic index known as the *Medicare Economic Index* (MEI) which reflects changes in operating expenses and earnings levels of physicians. Table 1 shows the MEI values and percentage increases over prior periods for fee screen periods beginning in 1973.[2]

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[2] The economic index limitation was enacted in 1972, Public Law 92-603. However, due in part to the Economic Stabilization Program that imposed economywide price controls between 1972 and 1974, development was of the index was temporarily deferred. It was first used to limit increases in prevailing charges for the fee screen year beginning on July 1, 1975.

TABLE 1.—MEDICARE ECONOMIC INDEX AND PERCENTAGE INCREASES OVER PRIOR PERIOD, 1973–1989

Fee screen period	Index value	Annual increase (percent)
July 1, 1973	1.000	NA
July 1, 1975 to June 30, 1976	1.179	17.90
July 1, 1976 to June 30, 1977	1.276	8.23
July 1, 1977 to June 30, 1978	1.357	6.35
July 1, 1978 to June 30, 1979	1.426	5.08
July 1, 1979 to June 30, 1980	1.533	7.50
July 1, 1980 to June 30, 1981	1.658	8.15
July 1, 1981 to June 30, 1982	1.790	7.96
July 1, 1982 to June 30, 1983	1.949	8.88
July 1, 1973 to June 30, 1984	2.063	5.85
July 1, 1984 to Apr. 30, 1986	2.063	[1] 0
May 1, 1986 to Dec. 31, 1986	2.149	[2] 4.15
Jan. 1, 1987 to Mar. 31, 1988	2.218	[3] 3.20
PRIMARY CARE SERVICES		
Apr. 1, 1988 to Dec. 31, 1988	2.298	[4] 3.60
Jan. 1, 1989 to Dec. 31, 1989	2.367	[5] 3.00
OTHER SERVICES		
Apr. 1, 1988 to Dec. 31, 1988	2.240	[4] 1.00
Jan. 1, 1989 to Dec. 31, 1989	2.262	[5] 1.00

[1] MEI was held constant during fee freeze.

[2] Percentage increase was mandated by Public Law 99–272 and applied only to participating physicians.

[3] Percentage increase was mandated by Public Law 99–509 and applied to both participating and non-participating physicians. Prevailing charges of non-participating physicians are 96 percent of the prevailing charges for participating physicians.

[4] Percentage increase was mandated by Public Law 100–203. Prevailing charges for services provided by non-participating physicians are 95.5 percent of the prevailing charges for participating physicians.

[5] Percentage increase was mandated by Public Law 100–203. Prevailing charges for services provided by non-participating physicians are 95 percent of the prevailing charges for participating physicians.

NA—Not applicable.

The MEI is a limit on the *cumulative* charges in prevailing charges since the 1973 fee screen year (the 12-month period beginning July 1, 1973). That is, the MEI does not limit annual increases in prevailing charges, but the total increase since 1973. Thus in single year, a prevailing charge can increase by a greater percentage than the annual percentage change in the MEI as long as the cumulative change since 1973 is less than the cumulative change in the MEI. For example, consider a hypothetical service with a prevailing charge of $100 in 1973. Between 1973 and 1981, the MEI grew from 1.0 to 1.79, representing a 79 percent increase over this time period. In 1982, the MEI increased by nearly 8 percent, to 1.95, representing a 95 percent cumulative change since 1973. Under the MEI provision, the prevailing charge of the hypothetical service could increase up to $195, a 95 percent change from the $100 charge in 1973. Thus, if the prevailing charge in 1981 had been only $165, it could increase by $30 (18 percent) before the MEI limited its growth.

Physicians' fees generally have increased at a faster rate than the economic index. Between 1973 and 1984, the MEI increased by 106 percent while physician fees, as measured by the physician services component of the Consumer Price Index (CPI–U), increased 157 percent. Thus each year, an increasing percentage of physicians' actual and customary charges have exceeded the index-adjusted prevailing charge screens. Also, it should be emphasized that as the MEI limit applies only to the prevailing charge screens, and not to actual charges or the customary charge screens. Thus, the annual increase in average physician payments for a service under Medicare may be lesser or greater than the percentage change in the MEI, depending on the relative changes in actual and customary charges.

After July 1, 1984

The Deficit Reduction Act of 1984, Public Law 93–369, also known as DEFRA, froze physicians' customary and prevailing charges from July 1, 1984, through September 30, 1985. The annual update in the customary and prevailing charge screens otherwise slated for July 1, 1984, did not occur. Subsequent fee screen updates were slated to occur on October 1 of future years beginning in 1985. However, the increase slated to occur on October 1, 1985, was postponed, and the fee freeze extended. The next update occurred on May 1, 1986, for participating physicians only (see discussion of participating physicians below). Increases in the prevailing charges for participating physicians were limited by a congressionally mandated MEI of 4.15 percent. Subsequent updates were scheduled to occur on January 1 of each year.

The customary and prevailing charges of all physicians were updated on January 1, 1987. Increases in the prevailing charge screens were limited by a congressionally mandated 3.2 percent increase in the MEI. In 1987, the MEI applied separately to the prevailing charges of participating and nonparticipating physicians, providing for a 4 percent differential in the economic index adjusted prevailing charges based on participation status.

The Omnibus Budget Reconciliation Act (OBRA) of 1987, Public Law 100–203, delayed the customary and prevailing charge screen update scheduled to occur on January 1, 1988, until April 1, 1988. OBRA of 1987 provides for greater change in the MEI for certain primary care services than for other services. It also increases the differential between the prevailing charges of participating and nonparticipating physicians to 5 percent over a 2-year period. Specifically, for the 9-month period beginning April 1, 1988, the MEI for participating physicians increased by 3.6 percent for primary care services (office, home, emergency room, and nursing home visits) and 1.0 percent for all other services. For nonparticipating physicians, the MEI increased by 3.1 percent for primary care services and 0.5 percent for other services. On January 1, 1989, the MEI for primary care and other services will increase by 3.0 and 1.0 percent respectively for participating physicians and by 2.5 and 0.5 percent for nonparticipating physicians.

OBRA of 1987 also provides for incentive payments, equal to 5 percent of allowed charges, for primary care services furnished by physicians in certain rural health manpower shortage areas after January 1, 1989, and in certain urban and rural health manpower shortage areas after January 1, 1990.

ASSIGNMENT

Medicare payments are made either directly to the doctor or to the patient depending upon whether the physician has accepted assignment for the claim. In the case of *assigned claims,* the beneficiary assigns (i.e., transfers) his or her right to payment from Medicare to the physician. In return, the physician agrees to accept Medicare's approved or reasonable charge amount as payment in full for covered services. The physician bills the program directly and is paid an amount equal to 80 percent of Medicare's reasonable or approved charge (less any deductible, where applicable). The physician then bills the patient for the 20 percent coinsurance. The physician may not charge the beneficiary (nor can the physician collect from another party such as a private insurer) more than the applicable deductible and coinsurance amounts. When a physician accepts assignment, the beneficiary is protected against having to pay any difference between Medicare's approved charge and the physician's actual charge.

In the case of *nonassigned claims,* payment is made by Medicare directly to the beneficiary on the basis of any itemized bill, paid or unpaid. The beneficiary is responsible for paying the physician's bill. In addition to the deductible and coinsurance amounts, the beneficiary is liable for any difference between the physician's actual charge and Medicare's approved charge.

A physician (except one who becomes a participating physician) generally may accept or refuse requests for assignment on a bill-by-bill basis, from different patients at different times, or from the same patient at different times. However, the physician is generally precluded from fragmenting bills for the purpose of circumventing reasonable charge limitations. That is, he or she must either accept assignment or bill the patient for all services performed on a single occasion (see exception for assigned laboratory services below).

Physicians accept assignment, and thus forgo some income, for a variety of reasons. It has been suggested that in some cases, a physician may accept assignment because the patient has limited resources and the physician is using the assignment option to provide a discounted fee for the service. For patients in extreme poverty or for patients with a history of late or nonpayment of bills, the physician also may be concerned whether the patient will make any payment. In this case, the physician may prefer the certainty of payment at 80 percent of the reasonable charge directly from Medicare on an assigned claim than the uncertainty of collecting the full charge from the patient.

Under certain circumstances, physicians must accept assignment, accepting Medicare's reasonable charge as payment in full. Physicians are required to accept assignment for Medicare patients who also are eligible for Medicaid. Total reimbursement for services provided to these dually eligible individuals is equivalent to the Medicare determined reasonable charge with Medicaid paying the deductible and coinsurance amounts.

Diagnostic laboratory tests, whether performed by physicians, independent laboratories or hospital outpatient laboratories, are only a covered service when they are billed on an assigned basis. In addition, physicians are prohibited from billing patients for laboratory services on an unassigned basis. Thus, assignment is mandatory.[3] Physicians who repeatedly bill beneficiaries for laboratory tests on an unassigned basis may be subject to civil money penalties, exclusion from Medicare for up to 5 years, or both. Physicians may bill on an assigned basis for laboratory services while not accepting assignment for other services performed at the same time and place.

The law specifies that a physician who knowingly, willfully, and repeatedly violates his assignment agreement is guilty of a misdemeanor. The penalty for conviction is a maximum $2,000 fine, up to 6 months' imprisonment, or both.

PARTICIPATING AND NONPARTICIPATING PHYSICIANS

A *participating physician* is one who voluntarily enters into an agreement with the Secretary of Health and Human Services to accept assignment on all services provided to all Medicare patients for a future specified period, generally 12 months. The first such period began October 1, 1984. The law requires physicians to sign up prior to the start of the participation period. Until the next participation period begins, only new physicians in an area or newly licensed physicians may enter into participation agreements. A physician who has elected to participate in one period is deemed to participate in future periods unless the agreement is explicitly terminated. Participation periods generally are scheduled on a calendar year basis to coincide with the annual update cycle in customary and prevailing charges. However, under the provisions of OBRA of 1987, participation agreements for 1987 were presumed to continue in effect for the first 3 months of 1988, unless the physician requested to have the agreement terminated. A special 9-month participation period began an April 1, 1988. In 1989, participation periods will again start on January 1 of each year.

A *nonparticipating physician* is a physician who has not signed a voluntary participation agreement. Except for those services for which assignment is mandatory (i.e., clinical laboratory services), a nonparticipating physician may accept or refuse assignment on a claim-by-claim basis.

The law includes a number of incentives to encourage physicians to become participating physicians, and thus to increase the proportion of claims billed on an assigned basis. During the freeze period the primary incentive for physicians to participate was the ability to increase their billed charges, while the actual charges of nonparticipating physicians were frozen. While any increase in billed charges did not raise Medicare payments or effect beneficiary liability during the freeze period, these increased charges were reflected in the calculation of updated customary and prevailing charge screens when the freeze was lifted for participating physicians on May 1, 1986. Nonparticipating physicians were subject to the freeze through December 31, 1986. During the freeze, nonparticipating physicians were prohibited from raising their actual charges above the levels charged during the April–June 1984 base period.

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[3] There are a number of exceptions to the mandatory assignment rule for laboratory services. Laboratory services billed to part B by rural health clinics are an exception to the mandatory assignment rule. These clinics have the option to accept or refuse assignment on claims for laboratory services; unassigned claims are subject to part B deductible and coinsurance requirements. Other exceptions to the mandatory assigment rule are laboratory tests billed to part B that are reimbursed on a cost basis, such as tests billed by skilled nursing facilities for an inpatient of that facility, or by a participating hospital for an inpatient who is not entitled to part A coverage. These services also are subject to part B deductible and coinsurance provisions.

After expiration of the freeze in 1987, a major incentive to participate comes from the two MEI-adjusted prevailing charge levels. For each service, the reasonable charges of participating physicians are limited by prevailing charges that are higher than the prevailing charges for nonparticipating physicians. In 1987, this differential was 4 percent. Due to differential updates in the MEI (see above), the difference between the MEI-adjusted prevailing charges for participating and nonparticipating physicians will increase to 4.5 percent on April 1, 1988, and to 5.0 percent on January 1, 1989.

Concerned that nonparticipating physicians would drastically increase their fees once the freeze was lifted, Congress enacted a limit on allowable increases in the actual charges of nonparticipating physicians, effective January 1, 1987. This limit is referred to as the *maximum actual allowable charge* (MAAC). It is intended, in part, to protect beneficiaries from large increases in liability if nonparticipating pysicians dramatically increased their actual charges to recoup revenues lost during the freeze. Nonparticipating physicians, whose actual charge for a service in the preceding year equals or exceeds 115 percent of the current year's prevailing charge, may increase their actual charges by no more than 1 percent; that is, their MAAC for the service is only 1 percent higher than their MAAC for the same service during the preceding year. Nonparticipating physicians whose actual charge for the preceding year is below 115 percent of the current year's prevailing charge may increase their actual charges over a 4-year period, 1987 through 1990, such that in 1990 their MAAC for the service may equal 115 percent for the prevailing charge.[4]

In addition to the payment provisions, the law includes other incentives for physicians to participate. For example, the Secretary is required to publish directories that identify participating physicians and carriers must establish toll-free telephone lines to provide beneficiaries with names of local participating physicians.

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[4] The MAC for a nonparticipating physician whose actual charge for a service in the previous year is less than 115 percent of the current year prevailing charge is the dollar amount which is the greater of: (1) the amount 1 percent above the physician's previous year's actual charge; or (2) an amount based on a comparison between the physician's MAAC for the previous year and 115 percent of the current prevailing charge. Under clause (2), the MAAC for the current year equals the previous year MAAC increased by a fraction of the difference between 115 percent of the current year prevailing and the previous year MAAC. The applicable fractions are one-quarter, one-third, one-half and one for 1987, 1988, 1989, and 1990, respectively. For example, if a physician's 1986 MAAC for a service is $100, and 115 percent of the 1987 prevailing charge amount is $124, under clause (2), the 1987 MAAC for that physician for that service is $106. [$100 + 0.25($124 − $100)]

Also, the "Explanation of Medicare Benefits" (EOMB) notices sent to Medicare beneficiaries by carriers on unassigned claims must include a reminder of the participating physicians and supplier programs.

The law requires the Secretary to monitor the charges of nonparticipating physicians to determine compliance with the MAAC limits. Nonparticipating physicians who do not comply with the MAAC limits are subject to civil monetary penalties or assessments, exclusion from the Medicare program for up to 5 years, or both. Civil monetary penalties may be imposed in amounts up to $2,000 for each violation. The Secretary is given authority to use the penalties and assessments collected from physicians to make restitution to beneficiaries that made excess payments due to charges above the MAAC limits. The Secretary cannot exclude a doctor from Medicare who is the sole physician serving a community or a physician providing essential specialized services which would otherwise be unavailable. When determining whether to bar a physician from the program, the Secretary must consider the effect of the exclusion on access beneficiaries' access to physician services.

In addition to provisions in law that directly encourage participation, physicians may elect to participate for other reasons. For example, beneficiaries may elect to obtain their medical care from participating physicians in order to limit their liability for charges in excess of Medicare's allowed amounts on unassigned claims. Thus, physicians who participate may be able to maintain or increase their patient loads and thus maintain or increase their Medicare income in spite of the loss of income related to balance billing. There is some evidence that supports the argument that participation may be an effective means for physicians to increase their patient loads. While the percentage of physicians participating was relatively stable during the first four participation periods, the proportion of total covered Part B physicians charges billed by participating physicians increased from 36 percent in fiscal year 1985 to 48.1 percent during the January 1987 to March 1988 participation period. These trends suggest that beneficiaries are responding to the incentive of no liability for excess charges by seeking care from participating physicians.[5]

While some physicians may elect to participate, over 60 percent of physicians are not participating. Surveys of physicians have indicated that noneconomic factors, specifically a physician's philosophical attitude, are important. For example, nearly 80 percent of nonparticipating physicians in one survey asserted that a very important factor in their decision was the belief that physicians should have the freedom to set their own fees.[6]

PAYMENTS FOR ANESTHESIOLOGY SERVICES

Reasonable charges for anesthesiology services are currently based on what are known as relative value units (RVUs). RVUs measure the complexity and duration of effort required to provide anesthesiology services to a patient. Physicians giving anesthesiology services to patients having more complex surgery or whose surgery takes a longer period of time are allowed more RVUs than simple cases with short surgical times. The RVUs are then converted into a reasonable charge value by multiplying the RVs times a conversion factor.

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[5] Burney, I. and J. Paradise. Trends in Medicare Physician Participation and Assignment. Health Affairs, summer 1987. pp. 107–120.

[6] Physician Payment Review Commission. Report to Congress. Mar. 31, 1988, pp. 144–149.

Although there is some variation in the use of RVUs between carriers, the number of RVUs recognized for payment purposes generally is the sum of three elements. First, each surgical procedure is assigned a number of *base units*; more complex procedures have a higher number of base units. Second, anesthesiologists bill for a varying number of *time units* based on the duration of the procedure. Usually, one time unit is recognized for each 15 minutes for the duration of the surgery. Third, the anesthesiologist can bill for *modifier units* that take into account special complications such as the age or physical condition of the patient. For each anesthesiology service, the reasonable charge is the smallest of (1) the actual charge, (2) the allowed relative value units times the physician's customary conversion factor, and (3) the allowed relative value units times the prevailing conversion factor in the locality. The customary and prevailing conversion factors are determined in the same fashion as for other physician services. The carrier estimates a customary conversion factor based on each physician's historical charges; prevailing conversion factors are the 75th percentile of the ranked customary conversion factors, subject to the MEI limit.

Physicians also may bill for the supervision of anesthesia care provided by certified registered nurse anesthetists (CRNAs), and may supervise up to four procedures concurrently performed by CRNAs. If the physician employs the CRNA (and therefore pays the CRNA's salary), the same payment is made as if the physician had performed the service. If the CRNA is not employed by the supervising physician, either because the CRNA practices independently or is an employee of the hospital, the supervising physician may bill for only one time unit per 30 minutes. That is, the payment to the supervising physician is reduced because the physician is not paying for the CRNA's services.

The Omnibus Budget Reconciliation Act of 1986 (OBRA) provides that, for a 2-year period beginning January 1, 1989, CRNAs will be permitted to bill Medicare directly for their services. The reasonable charge CRNA services will be the lesser of the actual charge and a fee schedule amount. The Secretary is required to develop the fee schedule and may design the schedule to use similar base, time and modifier units as currently in use for physician anesthesiology services. CRNAs billing Medicare directly can submit claims for their services only on an assigned basis.

OBRA of 1987 reduces the number of base units billed by physicians after April 1, 1988, for the supervision of two or more concurrent procedures performed by CRNAs. The number of base units that may be billed are reduced by 10 percent for two concurrent procedures, 25 percent for three concurrent procedures, and 40 percent for four concurrent procedures. OBRA of 1987 also requires the Secretary to conduct a study to develop a uniform national relative value guide for anesthesia services. On January 26, 1989, the Secretary published a proposed rule that would establish a uniform national relative value guide for anesthesia services, effective March 1, 1989.

PAYMENTS FOR RADIOLOGY AND PATHOLOGY SERVICES

Physician radiology and pathology services have been reimbursed in the same way as other physician services. That is, payment is based on the smallest of the actual, customary and prevailing charge for each service rendered. OBRA of 1987 requires the development of radiology and pathology fee schedules based on relative value scales (RVS). As with the RVU system for anesthesiology services, the RVSs would assign a relative value to each procedure that reflects the complexity and effort required in providing the service. The RVSs are then converted into a fee schedule using a dollar conversion factor. For radiology services provided by board-certified radiologists and for radiology services provided by other physicians whose Medicare billings are at least half for radiology services, reimbursement for services provided on or after January 1, 1989, is to be based on the lesser of the actual charge and the radiology fee schedule amount.

CLINICAL LABORATORY SERVICES

Since 1984, clinical laboratory services have been paid according to fee schedules. For services provided in 1988, the reasonable charge is the smallest of (1) the actual charge, (2) an area-wide fee schedule amount based on existing prevailing charge localities, and (3) a nationwide cap. Medicare's payment on assigned laboratory claims is equal to 100 percent of the reasonable charge amount; deductible and coinsurance requirements do not apply to payments for these services when billed on an assigned basis.

As originally established, the fee schedules provided different levels payments depending on where the test was performed. For tests performed in independent laboratories and physicians' offices, the areawide fee schedules were initially set at 60 percent of the local prevailing charges that applied for services rendered during the 12-month period following July 1, 1984. For tests performed in hospital outpatient departments, the areawide fee schedules were set at 62 percent of the 1984 prevailing charges. The areawide fee schedules have generally been updated each year by the percentage increase in the CPI.

OBRA of 1987 made several changes in the fee schedules. First, the areawide fee schedules for certain automated tests were reduced by 8.3 percent, effective April 1, 1988. Second, the 2 percent differential between the fee schedules for hospital-based and other laboratories is eliminated, except for sole community hospitals. Finally, although the fee schedules had been updated annually by the percentage change in the CPI, no increase was permitted for tests provided in 1988 and no catchup is permitted in subsequent years.

The nationwide cap provisions were first implemented in 1986. The cap on the fee schedules was initially set at 115 percent of the median of the areawide fee schedule amounts. Under the provisions of OBRA of 1987, the cap is reduced to 100 percent of the median areawide fee schedule amount for services rendered after March 31, 1988.

Physicians may not bill for tests that they do not personally perform or supervise. In this case, they may bill only for a handling fee for collecting specimens.

Since January 1, 1987, Medicare payments for laboratory services can only be made on assigned claims. During 1987, physicians could refuse assignment and bill the patient directly. If the patient submitted the claim to Medicare, it was disallowed as no payment could be made on unassigned laboratory services. In these cases, the beneficiary was liable for the full charge for the service. OBRA of 1987 provided that, beginning January 1, 1988, physicians cannot bill beneficiaries for these services on an unassigned basis.

"INHERENT REASONABLENESS" GUIDELINES

The law has always given the Secretary certain flexibility in determining reasonable charges. The Omnibus Budget Reconciliation Act of 1986 (P.L. 99-272) specified the circumstances that justify a departure from the usual reasonable charge methodology and appropriate and set forth criteria the Secretary must use in determining whether a charge is "inherently reasonable."

By law, the Secretary is authorized to establish a payment limit for a physician's service based on considerations other than actual, customary, or prevailing charge for the service. A departure from the standard is appropriate if:

—Prevailing charges in a locality are significantly in excess of, or below, prevailing charges in other comparable localities, taking into account the relative costs of furnishing services.

—Medicare and Medicaid are the sole or the primary sources for payment.

—The marketplace for the service is not truly competitive.

—There have been increases in charges for a service that cannot be explained by inflation or changes in technology.

—The charges do not reflect changing technology, increased facility with that technology, or changes in acquisition or production costs.

—The prevailing charges for a service under Medicare are substantially higher or lower than payments made by other purchasers in the same locality.

The Secretary is authorized to adjust payments if it can be justified by a comparison of resource costs or charges. An adjustment may be based on one of the following comparisons: charges and resource costs for related procedures, charges and resource costs for a procedure over a period of time, charges for a procedure in different geographic areas, and Medicare charges and allowed payments for a procedure compared to those of other payers.

An adjustment in prevailing charges may be made only if the Secretary determines that a prevailing charge allowed in a locality is out of line with prevailing charges allowed in other localities after accounting for differences in practice costs.

In determining whether to adjust payment rates, the Secretary must consider the potential impact on quality, access, and beneficiary liability, including the likely effects on assignment rates, reasonable charge reductions on unassigned claims, and participation rates of physicians. The law specifies procedures the Secretary is required to follow in the case of a proposed modification in payments based on inherent reasonableness criteria.

If an adjustment is made which results in a reduction in allowed payments, a special limit on actual charges for nonparticipating physicians would apply. For the first year the reduction is in effect, the maximum allowable actual charge for the service equals 125 percent of the inherently reasonable charge level plus one-half of the difference between the physician's actual charge in the preceding period and 125 percent of the inherently reasonable charge. In the second year, the maximum allowable charge for the service equals 125 percent of the inherently reasonable charge level.[7]

REDUCTIONS IN PAYMENTS FOR CATARACT SURGERY AND OTHER SERVICES

Cataract surgery involves the removal (by various means) of the natural lens of eye and replacement of the lens by a prosthetic (artificial) lens. Prosthetic lenses include externally worn contact lenses, eyeglasses, and most commonly, artificial lenses that are surgically implanted in the patient's eye. Cataract extractions with an intraocular lens implant (IOL) currently account for 90 percent of all cataract surgeries.

Under the provisions of OBRA of 1986 (P.L. 99-509), the maximum allowable prevailing charges otherwise recognized for participating and nonparticipating physicians performing a cataract surgical procedure were reduced by 10 percent with respect to procedures performed in 1987. In no case could the reduction result in a prevailing charge that is less than 75 percent of the weighted national average of such prevailing charges for such procedure for all localities in the U.S. in 1986. This law also imposed limits on the actual charges by nonparticipating physicians for cataract surgery that are identical to the limits that would apply under an inherent reasonableness adjustment by Secretary.

Public Law 99-509 also ratified the final regulations issued by the Department on October 7, 1986, on anesthesia services related to cataract surgery. This regulation sets limits on reasonable charge payments for anesthesia services furnished by physicians during cataract surgery and iridectomies (i.e., exclusion of a portion of the iris), effective January 1, 1987. As described above, carriers currently calculate the reasonable charge for anesthesia services based on the sum of the number of base units assigned to each specific procedure (generally eight base units for cataract surgery procedures prior to 1987), the number of time units for the procedure (one time unit for each 15-minute interval), and the number of modifier units that take into account special factors such as age or physical condition of the patient. The regulation allows no more than four base units as well as appropriate time and modifier units for anesthesia services connected with cataract surgery.

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[7] It should be noted that for procedures reduced under the inherent reasonableness authority, two separate limits may apply to the actual charges of nonparticipating physicians: the physician's own MAAC for the service and the special limit imposed under the inherent reasonableness authority. In such cases, the applicable limit for a particular physician is the lower of the two limits.

OBRA of 1987 (P.L. 100-203) also made reductions in the prevailing charges for certain procedures that were identified by the Physician Payment Review Commission as being overpriced. Services subject to these reductions are: coronory artery bypass surgery, hip replacement, cataract surgery, certain prostate procedures, diagnostic and/or therapeutic dilation and curettage (D&C), carpal tunnel surgery, pacemaker surgery, brochoscopy, upper gastrointestinal endoscopy, knee arthoscopy and knee arthoscopy and knee arthroplasty. Effective April 1, 1988, the prevailing charges of these procedures are to be reduced by 2 percent plus a so-called sliding scale amount between 0 and 15 percent that is determined by a comparison of the local prevailing charge to the weighted national average prevailing charge. The sliding scale reductions are computed as follows. Prevailing charges in excess of 150 percent of the national average prevailing charge are reduced by 15 percent. Prevailing charges less than 85 percent of the national average are not reduced by the sliding scale. Prevailing charges between 85 and 150 percent of the national average would be reduced by three-thirteenths of 1 percent for each percent that the prevailing charge exceeds 85 percent of the national average. For example, a prevailing charge equal to the national average would be reduced by approximately 3.5 percent; the charge at the national average exceeds 85 percent of the average by 15 percent, and 15 times three-thirteenths equals 3.46. The prevailing charges in areas with very low charges (i.e., the prevailing charge is less than 85 percent of the national average) are not be reduced.[8] The law also imposes the same special limits on the actual charges for these services by nonparticipating physicians as would apply if the charges for these services had been reduced under the Secretary's inherent reasonableness authority. That is, in the second year following a reduction, actual charges for these procedures may not exceed 125 percent of the reduced prevailing.

PAYMENTS FOR PURCHASED SERVICES

In the past, physicians have sometimes purchased certain diagnostic services from outside suppliers. That is, the outside supplier performed the technical component of the service, while the physician provided the professional service of interpreting the test results. The physician would bill the patient directly for these purchased services, sometimes in the form of a single global fee for both technical and professional components. In some cases, physicians have billed fees that exceed the sum of the reasonable charge for the professional component plus the actual cost of purchasing the technical component. In effect, these physicians increased their Medicare revenues by marking up the charge for the purchased service.

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[8] OBRA of 1986 had required a 2-percent reduction in the prevailing charges for cataract surgery in 1988. OBRA of 1987 increased the 1988 reduction for cataract surgery to 2 percent plus the sliding scale reduction, and provided that prevailing charges could not be reduced below 85 percent of the national average prevailing charge instead of the 75 percent lower limit included in OBRA of 1986.

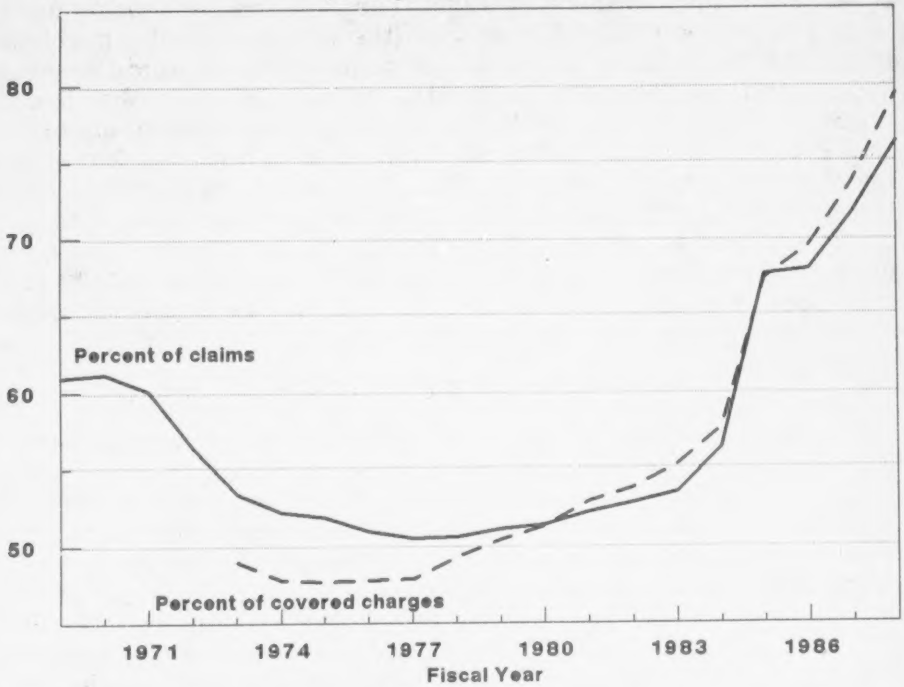
OBRA of 1987 provides that physicians may not bill in excess of the acquisition cost for diagnostic services that they do perform or supervise after January 1, 1989. The reasonable charge for the technical component of the service (the service actually purchased) is limited to the lesser of the actual acquisition cost and the outside supplier's reasonable charge for the service. When global fees are billed that include both technical and professional components, the reasonable charge is limited to the sum of the reasonable charges for the separate components. The Secretary is required to review the prevailing charges of diagnostic services that are commonly purchased and to reduce them if excessive. If the prevailing charge for a service is reduced, actual charges by non-participating physicians on unassigned claims are limited in the same manner as under inherent reasonable reductions.

ASSIGNMENT RATE EXPERIENCE

The total number of assigned claims as a percentage of total claims received by medicare carriers is known as the total assignment rate. The net assignment rate was computed in the same manner except that it omitted hospital-based physicians and group-practice prepayment plans which were considered assigned by definition (this distinction is no longer made). The net assignment rate declined since 1968, the year the Department of Health, Education, and Welfare (now the Department of Health and Human Services) began reporting this data. In the mid-1970's the rate leveled off at about 50 percent. Recently the rate has increased significantly. This reflects both the impact of the participating physician program as well as the new requirement that laboratory services must be paid on an assigned basis. Chart 1 and table 2 show the net assignment rates for fiscal years 1969–1988.

Chart 1

Net Assignment Rates (fiscal years 1969-1988)



Source: Health Care Financing Administration.

TABLE 2.—NET ASSIGNMENT RATES,[1] BY YEAR, 1969–88

[In percent]

Fiscal year	Claims	Covered changes
1969	61.0	NA
1970	61.2	NA
1971	60.1	NA
1972	56.4	NA
1973	53.4	49.0
1974	52.2	47.8
1975	51.9	47.7
1976	51.0	47.8
1977	50.5	47.9
1978	50.6	49.3
1979	51.1	50.4
1980	51.4	51.3
1981	52.2	52.9
1982	52.8	53.8
1983	53.5	55.3
1984	56.4	57.7

TABLE 2.—NET ASSIGNMENT RATES,[1] BY YEAR, 1969–88—Continued

[In percent]

Fiscal year	Claims	Covered Changes
1985	67.7	67.4
1986	68.0	69.5
1987	71.7	73.7
1988	76.3	79.4

[1] Both measures of assignment exclude claims from hospital-based physicians and group-practice prepayment plans that are considered assigned by definition.

Source: U.S. Department of Health and Human Services.

The statistics included in table 2 are program-wide data. Assignment rates also vary geographically. For example, the assignment rate (taken as a percent of dollars) for physician services in FY 88 ranged from a low of 30.0 percent in Idaho to a high of 99.1 percent in Massachusetts. The national average assignment rate for physician services during this period was 77 percent (see table 3).

TABLE 3.—PHYSICIAN ASSIGNMENT RATES AS PERCENT OF COVERED CHARGES BY STATE, FISCAL YEARS 1985–1988

[In percent]

Census division/State	Fiscal year—			
	1985	1986 [2]	1987 [3]	1988 [4]
National	65.5	66.4	70.8	77.0
New England:				
Maine	81.5	80.2	84.3	88.6
New Hampshire	56.5	55.0	58.3	64.3
Vermont	64.3	64.8	71.7	92.4
Massachusetts [5]	93.7	96.0	98.2	99.1
Rhode Island	94.0	94.4	95.1	96.0
Connecticut	57.6	55.0	62.8	72.5
Middle Atlantic:				
New York	70.3	71.4	73.9	78.5
New Jersey	62.3	62.4	63.8	67.4
Pennsylvania	88.1	89.8	91.0	93.4
East North Central:				
Ohio	50.8	50.6	58.8	71.0
Indiana	49.6	54.5	59.2	69.2
Illinois	51.7	55.0	59.9	67.5
Michigan	88.2	88.1	89.7	92.2
Wisconsin	51.7	50.8	54.6	61.3
West North Central:				
Minnesota	30.6	31.7	39.9	44.2
Iowa	46.9	47.6	53.2	62.6
Missouri	50.1	53.4	61.2	68.9

TABLE 3.—PHYSICIAN ASSIGNMENT RATES AS PERCENT OF COVERED CHARGES BY STATE, FISCAL YEARS 1985-1988—Continued

[In percent]

Census division/State	Fiscal year—			
	1985	1986 [2]	1987 [3]	1988 [4]
North Dakota	30.5	29.3	36.3	46.6
South Dakota	18.7	20.4	26.7	33.0
Nebraska	47.3	33.5	43.4	55.4
Kansas	72.7	73.7	78.7	84.6
South Atlantic:				
Delaware	81.8	79.8	81.9	84.6
Maryland	81.6	82.8	84.6	87.9
District of Columbia	78.1	78.6	80.5	84.6
Virginia	66.4	68.8	73.4	81.2
West Virginia	66.7	69.6	76.9	85.2
North Carolina	60.3	61.1	66.2	74.5
South Carolina	64.9	70.2	75.4	82.4
Georgia	63.9	64.8	69.1	75.5
Florida	62.2	64.8	68.6	76.1
East South Central:				
Kentucky	50.3	54.2	63.5	75.2
Tennessee	55.6	58.1	65.5	74.8
Alabama	74.6	75.8	91.7	87.4
Mississippi	63.5	67.3	73.5	80.5
West South Central:				
Arkansas	72.6	75.2	81.1	87.2
Louisiana	51.0	58.5	67.8	78.5
Oklahoma	39.0	39.8	48.6	58.5
Texas	63.0	61.1	67.2	74.2
Mountain:				
Montana	42.6	38.4	42.9	48.5
Idaho	25.2	24.8	26.4	30.0
Wyoming	33.8	32.1	30.4	36.7
Colorado	56.0	53.2	56.8	63.5
New Mexico	58.3	59.3	57.6	65.1
Arizona	52.8	51.2	57.1	66.6
Utah	63.1	61.4	69.4	74.1
Nevada	81.6	83.2	86.8	91.2
Pacific:				
Washington	45.5	47.9	46.6	46.4
Oregon	38.7	41.1	46.9	53.2
California	71.3	69.9	74.0	79.6
Alaska	54.4	55.9	64.3	73.9
Hawaii	61.2	64.5	72.0	76.8

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[1] In instances in which carrier jurisdictions do not coincide with state boundaries, carrier rates were converted to state rates by calculating weights for the relevant counties based on their respective shares of total 1983 Medicare physician spending for physicians' services in the state and determining a weighted average rate. Rates reflect covered charges for physician claims processed during the period.

[2] The actual participation period was May through December 1986, and the participation agreements were in effect for that time.

[3] The actual participation period is January 1987 through March 1988, and the participation agreements are in effect for that time.

[4] The actual participation period is April 1988 through December 1988 and the participation agreements are in effect for that time.

[5] Massachusetts enacted a Medicare mandatory assignment provision, effective April 1986. The fact that the assignment rates shown here are not 100 percent may be explained by the inclusion in the database of billings by practitioners other than allopathic and osteopathic physicians, which are included in the Medicare statutory definition of "physician".

PARTICIPATING PHYSICIAN PROGRAM DATA

For the participation period beginning October 1, 1985, 27.9 percent of physicians billing Medicare were participating, 32.2 percent of limited license practitioners (i.e., chiropractors, dentists, podiatrists) were participating, and 23 percent of Medicare suppliers were participating. For the participation period beginning October 1, 1986, 28.4 percent of physicians (including limited licensed practitioners) were participating and 23.0 percent of suppliers were participating, for an overall participation rate of 27.7 percent.

The overall participation percentages do not vary substantially from fiscal years 1985 to 1986. Approximately 15 percent of fiscal year 1985 participating physicians dropped out of the program in fiscal year 1986. In 1986, there were 13,718 new physician participants and 2,932 new supplier participants.

For the participation period beginning January 1987, overall participation increased over the preceding period. Participation among physicians was 30.1 percent, while 30.4 percent of limited license practitioners participated. Participation among suppliers declined somewhat, from 23 percent in 1986 to 18.3 percent in 1987.

As shown in tables 4 and 5, participation rates increased significantly for the April through December 1988 participation period.

TABLE 4.—MEDICARE PHYSICIAN PARTICIPATION RATES: PERCENT OF PHYSICIANS WITH AGREEMENTS AND THEIR SHARE OF COVERED CHARGES

Participation period	Percent of physicians signing agreements	Participating physicians' covered charges as a percent of total [1]
October 1984–September 1985	30.4	36.0
October 1985–April 1986	28.4	36.3
April 1986–December 1986 [2]	28.3	38.7
January 1987–March 1988	30.6	48.1
April 1988–September 1988 [3]	37.3	57.6

[1] Rates reflect covered charges for physician services processed during period.

[2] The actual participation period was May through December of 1986, and participation agreements were in effect for that time. However, charge data are generally collected by quarter; thus, the data for the last three quarters of 1986 are used as a proxy for the participation period.

[3] The actual participation period is April through December, 1988 and participation periods are in effect for that time. The data from the second and third quarters of 1988 represent the most recent data available.

Source: Health Care Financing Administration.

TABLE 5.—PARTICIPATION RATES AS PERCENTAGE OF PHYSICIANS, BY SPECIALTY, FOR SELECTED PARTICIPATION PERIODS

Specialty	October 1985–April 1986	May 1986–December 1986	January 1987–March 1988	April 1988–December 1988
Physicians (M.D.s and D.O.s):				
General Practice	27.3	23.6	25.6	32.3
General Surgery	33.9	34.5	37.2	48.5
Otology, Laryngology, Rhinology	24.6	25.1	27.0	36.9
Anesthesiology	21.1	21.7	20.3	25.0
Cardiovascular Disease	35.6	38.8	43.2	52.8
Dermatology	34.0	37.8	38.1	45.7
Family Practice	25.5	27.1	27.1	35.6
Internal Medicine	32.5	31.1	33.6	41.2
Neurology	34.8	33.2	39.2	44.1
Obstetrics-Gynecology	29.1	30.5	31.5	40.4
Ophthalmology	27.3	28.7	35.1	46.3
Orthopedic Surgery	29.0	38.3	32.6	44.0
Pathology	39.6	37.7	41.2	48.1
Psychiatry	30.0	27.8	28.6	34.4
Radiology	41.3	39.5	39.8	46.3
Urology	27.8	29.0	30.9	41.7
Nephrology	50.8	46.2	49.7	57.8
Clinic or Other Group Practice—Not GPPP	33.8	35.4	50.6	60.8
Other Medical Specialties	32.4	28.3	30.1	37.4
Other Surgical Specialties	18.2	12.7	14.8	15.9
Limited License Practitioners (LLP):				
Chiropractor	25.4	23.8	19.7	22.9
Podiatry-Surgical Chiropody	38.2	31.8	33.4	44.6
Optometrist	44.0	48.2	44.1	50.5
Other Limited License Practitioners (Audiologist, psychologist, physical therapist)	36.8	33.8	30.9	33.8
Suppliers:				
Independent Laboratory	28.4	36.3	37.2	42.0
Durable Medical Equipment Suppliers	22.7	18.7	16.6	19.2
Ambulance Service Suppliers	28.6	38.6	27.9	30.0
Miscellaneous Suppliers (Orthotists, prosthetists, portable x-ray suppliers)	22.5	22.9	15.5	16.8

Source: Health Care Financing Administration.

TABLE 6.—PHYSICIAN PARTICIPATION RATES AS PERCENTAGE OF PHYSICIANS, BY STATE AND PARTICIPATION PERIODS

State	Oct. 85–Apr. 86	May 86–Dec. 86	Jan. 87–Mar. 88	Apr. 88–Dec. 88
Alabama	58.2	63.0	68.8	73.5
Alaska	10.4	22.6	27.1	37.5
Arizona	15.4	18.5	28.1	38.7

TABLE 6.—PHYSICIAN PARTICIPATION RATES AS PERCENTAGE OF PHYSICIANS, BY STATE AND PARTICIPATION PERIODS—Continued

State	Oct. 85–Apr. 86	May 86–Dec. 86	Jan. 87–Mar. 88	Apr. 88–Dec. 88
Arkansas	45.2	34.7	42.0	50.9
California	30.0	39.7	38.9	48.5
Colorado	28.1	24.4	19.5	24.9
Connecticut	22.2	19.2	17.4	22.8
Delaware	23.9	29.7	31.2	37.4
District of Columbia	30.5	26.0	28.0	33.5
Florida	25.7	22.6	24.9	30.6
Georgia	33.1	27.9	25.8	32.5
Hawaii	20.6	41.7	47.8	53.7
Idaho	11.0	10.3	10.4	14.9
Illinois	23.1	21.8	26.7	36.4
Indiana	18.2	21.4	26.9	36.8
Iowa	29.7	38.2	25.1	43.7
Kansas	45.4	39.5	51.4	60.0
Kentucky	24.3	28.0	34.2	46.4
Louisiana	18.8	13.4	18.1	29.5
Maine	35.4	28.5	34.2	42.4
Maryland	30.4	28.5	30.1	38.5
Massachusetts	48.1	43.0	43.8	45.9
Michigan	44.0	37.1	32.7	38.3
Minnesota	18.5	20.7	22.4	25.4
Mississippi	19.1	22.8	23.6	30.1
Missouri	35.2	24.0	24.5	29.5
Montana	24.3	13.9	17.0	19.9
Nebraska	20.0	23.8	25.7	48.2
Nevada	21.7	26.8	33.5	46.0
New Hampshire	26.9	27.2	25.9	28.4
New Jersey	18.0	20.6	22.7	28.2
New York	20.8	19.9	24.1	28.4
North Carolina	39.1	34.3	31.4	40.7
North Dakota	10.9	13.8	20.5	30.8
Ohio	21.7	26.4	28.9	41.8
Oklahoma	13.8	16.6	20.8	27.9
Oregon	18.5	22.8	26.1	32.8
Pennsylvania	50.8	45.6	32.1	36.6
Rhode Island	46.7	48.1	50.8	55.0
South Carolina	17.9	16.8	25.3	37.6
South Dakota	8.0	6.9	12.7	17.6
Tennessee	21.1	37.4	43.4	54.9

TABLE 6.—PHYSICIAN PARTICIPATION RATES AS PERCENTAGE OF PHYSICIANS, BY STATE AND PARTICIPATION PERIODS—Continued

State	Oct. 85–Apr. 86	May 86–Dec. 86	Jan. 87–Mar. 88	Apr. 88–Dec. 88
Texas	19.7	14.1	19.4	26.0
Utah	29.3	36.1	42.2	50.4
Vermont	41.5	38.2	34.1	38.5
Virginia	29.6	29.5	33.6	39.1
Washington	23.6	21.8	26.9	35.4
West Virginia	22.9	33.0	37.5	53.2
Wisconsin	31.0	37.5	35.1	39.0
Wyoming	18.3	16.9	20.3	20.1
National	28.4	28.3	30.6	37.3

Source: Health Care Financing Administration.

TABLE 7.—ALLOWED CHARGES OF PARTICIPATING PHYSICIANS AS A PERCENT OF TOTAL ALLOWED CHARGES—BY STATE AND PARTICIPATION PERIOD [1]

[In percent]

Census division/State	Oct. 1984–Sept. 1985	Oct. 1985–Mar. 1986 [2]	Apr. 1986–Dec. 1986 [2]	Jan. 1987–Mar. 1988 [3]	Apr. 1988–Sept. 1988 [4]
National	36.0	36.3	39.1	48.1	57.6
New England:					
Maine	50.9	50.4	54.0	64.8	75.1
New Hampshire	40.1	35.1	32.7	36.0	40.4
Vermont	37.3	36.0	39.8	46.8	70.2
Massachusetts	70.7	72.9	80.2	89.1	93.7
Rhode Island	68.7	77.1	79.6	85.8	89.7
Connecticut	30.7	32.3	35.9	45.3	57.5
Middle Atlantic:					
New York	31.5	33.2	36.0	40.8	47.1
New Jersey	21.5	24.3	26.4	32.8	41.1
Pennsylvania	71.4	69.9	69.2	75.1	80.2
East North Central:					
Ohio	24.9	27.2	28.5	41.5	55.9
Indiana	18.9	29.3	31.1	43.3	56.1
Illinois	29.4	31.3	32.4	42.0	53.3
Michigan	55.4	44.7	48.2	71.9	81.9
Wisconsin	31.3	21.2	30.5	31.7	30.6
West North Central:					
Minnesota	9.9	8.8	9.7	14.6	15.0
Iowa	28.5	29.4	30.5	41.0	49.8
Missouri	26.7	24.5	29.5	37.5	38.9
No. Dakota	6.9	11.2	12.2	16.0	32.4
So. Dakota	3.2	6.6	8.9	10.4	16.9
Nebraska	30.5	15.7	15.2	31.8	44.5

TABLE 7.—ALLOWED CHARGES OF PARTICIPATING PHYSICIANS AS A PERCENT OF TOTAL ALLOWED CHARGES—BY STATE AND PARTICIPATION PERIOD [1]—Continued

[In percent]

Census division/State	Oct. 1984–Sept. 1985	Oct. 1985–Mar. 1986 [2]	Apr. 1986–Dec. 1986 [2]	Jan. 1987–Mar. 1988 [3]	Apr. 1988–Sept. 1988 [4]
Kansas	48.0	42.5	41.7	52.3	50.0
South Atlantic:					
Delaware	57.0	55.8	54.9	58.5	67.1
Maryland	57.8	57.1	61.3	67.4	75.6
District of Columbia	60.3	61.3	60.8	66.6	71.4
Virginia	31.0	39.3	40.5	53.0	64.2
West Virginia	34.5	45.2	47.2	59.3	72.9
No. Carolina	34.4	35.7	36.5	44.9	53.7
So. Carolina	29.9	35.9	40.8	55.2	64.1
Georgia	29.3	32.5	35.1	43.0	53.8
Florida	30.0	30.1	34.1	41.9	55.1
East South Central:					
Kentucky	22.3	25.0	26.3	44.7	57.9
Tennessee	25.1	25.2	26.7	41.3	55.9
Alabama	42.5	52.0	58.6	66.9	76.5
Mississippi	14.3	22.6	31.0	44.9	58.5
West South Central:					
Arkansas	47.9	47.6	53.6	68.3	76.1
Louisiana	16.2	19.4	32.9	48.2	63.7
Oklahoma	16.6	13.6	16.2	24.9	36.7
Texas	26.2	23.3	28.1	38.9	47.8
Mountain:					
Montana	25.6	19.1	20.1	23.8	27.8
Idaho	8.6	10.1	8.9	9.3	11.9
Wyoming	15.7	17.9	11.6	14.1	17.9
Colorado	23.5	29.3	28.9	34.0	41.4
New Mexico	34.1	31.0	30.6	28.1	36.1
Arizona	32.7	29.6	27.4	38.3	50.9
Utah	43.8	40.0	44.8	58.4	59.5
Nevada	41.5	57.6	58.0	63.4	72.6
Pacific:					
Washington	17.5	21.5	24.3	20.2	23.4
Oregon	17.3	15.7	18.7	25.5	35.0
California	42.2	40.2	42.5	50.2	61.8
Alaska	17.2	18.2	24.9	34.3	44.6
Hawaii	39.7	39.5	43.5	53.5	62.0

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[1] In instances in which carrier jurisdictions do not concide with State boundaries, carrier rates were converted to state rates by calculating weights for the relevant counties based on their respective shares of total 1983 Medicare physician spending for physicians' services in the state and determining a weighted average rate. Rates reflect covered charges for physicians claims processed during the period.

[2] The actual participation period was May through December 1986, and the participation agreements were in effect for that time.

[3] The actual participation period is January 1987 through March 1988, and the participation agreements are in effect for that time.

[4] The actual participation period is April 1988 through December 1988 and the paticipation agreements are in effect for that time. Data for the period April 1988 through September 1988 are the latest available.

PARTICIPATION, ASSIGNMENT, AND REASONABLE CHARGE REDUCTIONS.

The difference between the physician's billed charge and Medicare's approved or reasonable charge is referred to as the reasonable charge reduction. Reasonable charge reductions were made on 85.7 percent of unassigned claims in fiscal year 1988. The average amount of the reduction was 24.7 percent of billed charges, or $29.47 per approved claim. Beneficiaries are liable for these reduction amounts, although it is not known how often physicians actually collect from beneficiaries. The total reduced on all unassigned claims was $2,312.6 million in fiscal year 1988.

Through 1984, approximately the same proportions of assigned and unassigned claims were reduced (see table 8), and were reduced by similar proportions and amounts. Since 1984, the proportions of assigned and unassigned claims reduced have remained about the same, but the percentage and amounts of the reductions have diverged. The percent and dollar reductions on assigned claims have continued to increase while the percent and dollar reductions of unassigned claims have decreased. This pattern may be due to the imposition of limits on the actual charges of nonparticipating physicians. That is, the MAAC limits, and the special limits on overpriced procedures may have limited the rate of increase in prices for unassigned services relative to the overall increase in reasonable charges. The substantial growth in the overall percentage of services billed on an assigned basis also may have contributed to this pattern.

As a result, total beneficiary liability for charge reductions on unassigned claims has been falling. Total liability peaked in 1985 at $2,812.7 billion, and has since declined by 18 percent to $2,312.6 billion.

TABLE 8.—REASONABLE CHARGE REDUCTIONS FOR MEDICARE PART B (EXCLUDES CLAIMS FROM HOSPITAL-BASED PHYSICIANS AND GROUP-PRACTICE PREPAYMENT PLANS) FOR ASSIGNED AND NOT ASSIGNED CLAIMS, FISCAL YEARS 1975, 1980, AND 1984–1988

	1975	1980	1984	1985	1986	1987	1988
Percentage of claims reduced:							
Assigned	68.3	80.0	80.3	81.7	82.5	83.0	85.5
Not assigned	75.6	83.7	83.1	84.6	84.9	82.5	85.7
Percentage reduction in charges for covered services:							
Assigned	16.4	22.5	24.7	27.0	28.4	27.9	29.3
Not assigned	16.6	22.3	23.6	25.6	26.6	25.5	24.7
Amount reduced per approved claim:							
Assigned	$11.13	$21.81	$32.62	$33.19	$36.43	$36.98	$39.97
Not assigned	$13.45	$21.96	$29.69	$33.12	$33.15	$31.44	$29.47
Amount reduced on claims not assigned (in millions)	$450.1	$1,454.0	2,698.2	$2,571.9	$2,812.5	$2,677.8	$2,312.6

Source: Department of Health and Human Services, Health Care Financing Administration.

The impact of reasonable charge reductions on unassigned claims is spread unevenly across the population. The most recent data available (April–September, 1988) show a 25.2 percent national average reduction on unassigned claims (see table 9). This percentage varied from a high of 31.7 in Alaska to a low of 18.6 in Massachusetts. Beneficiary liability for these charge reductions ranged from a high of $172.3 million in New York to a low of $0.7 million in Vermont.

TABLE 9.—REASONABLE CHARGE REDUCTIONS FOR UNASSIGNED CLAIMS, BY STATE,[1] APRIL–SEPTEMBER 1988

Census division/State	Covered charges [2]		Percent reduction in unassigned charges	Amount reduced, unassigned charges[2]
	Total	Unassign		
National	$23,629.8	$4,501.1	25.2	$1,135.3
New England:				
Maine	87.7	8.4	21.8	1.8
New Hampshire	62.1	19.6	27.8	5.4
Vermont	32.5	2.8	25.8	.7
Massachusetts [3]	665.8	6.3	18.6	1.2
Rhode Island	131.9	5.0	29.3	1.5
Connecticut	334.2	73.2	24.9	18.2
Middle Atlantic:				
New York	2,103.8	581.4	29.6	172.3
New Jersey	771.3	203.4	26.7	54.2
Pennsylvania	1,640.2	91.0	23.4	21.3
East North Central:				
Ohio	973.5	217.7	23.4	50.9
Indiana	389.4	101.5	24.2	24.6
Illinois	902.6	248.1	25.8	64.0
Michigan	937.9	61.4	24.6	15.1
Wisconsin	337.9	114.6	21.6	24.8
West North Central:				
Minnesota	238.1	122.1	22.4	27.3
Iowa	177.3	59.2	24.4	14.5
Missouri	471.2	121.6	22.7	27.6
No. Dakota	58.3	27.5	22.7	6.2
So. Dakota	48.2	28.6	24.9	7.1
Nebraska	87.8	34.7	22.0	7.6
Kansas	183.7	26.1	23.3	6.1
South Atlantic:				
Delaware	58.3	7.4	28.0	2.1
Maryland	383.5	39.2	25.1	9.8
District of Columbia	162.7	22.4	26.0	5.8
Virginia	366.7	58.9	24.3	14.3
West Virginia	149.0	16.6	27.2	4.5
No. Carolina	493.0	101.9	24.6	25.1
So. Carolina	196.4	29.5	26.2	7.7
Ggeorgia	469.2	93.4	23.6	22.1
Florida	2,032.3	401.9	22.1	88.7

TABLE 9.—REASONABLE CHARGE REDUCTIONS FOR UNASSIGNED CLAIMS, BY STATE,[1] APRIL–SEPTEMBER, 1988—Continued

Census division/State	Covered charges[2]		Percent reduction in unassigned charges	Amount reduced, unassigned charges[2]
	Total	Unassign		
East South Central:				
Kentucky	286.4	55.5	21.5	11.9
Tennessee	414.1	86.1	25.5	21.9
Alabama	368.8	40.5	25.6	10.4
Mississppi	189.2	30.3	26.0	7.9
West South Central:				
Arkansas	219.4	24.3	24.4	5.9
Louisiana	370.7	65.4	25.7	16.8
Oklahoma	249.1	87.3	28.9	25.2
Texas	1,330.7	294.1	28.0	82.3
Mountain:				
Montana	47.0	21.9	20.9	4.6
Idaho	49.5	31.7	24.8	7.9
Wyoming	15.6	8.6	26.3	2.3
Colorado	166.5	49.2	28.8	14.2
New Mexico	82.3	22.1	25.6	5.7
Arizona	325.1	90.7	21.7	19.7
Utah	70.1	14.9	24.6	3.7
Nevada	99.4	7.4	24.6	1.8
Pacific:				
Washington	334.9	133.2	22.2	29.6
Oregon	169.9	69.6	22.3	15.5
California	2,714.7	465.8	26.6	123.8
Alaska	10.8	2.6	31.7	.8
Hawaii	61.9	12.6	28.3	3.6

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[1] In instances in which carrier jurisdictions do not coincide with State boundaries, carrier rates were converted to State rates by calculating weights for the relevant counties based on their respective shares of total 1983 Medicare physican spending for physicians' services in the State and determining a weighted average rate. Rates reflect covered charges for physician claims processed during the period. National data include data for Puerto Rico, the Virgin Islands, the Railroad Retirement Board, and Parenteral and Enteral Claims. Therefore the sum of the State data will not equal the national total.

[2] Amounts in millions.

[3] Massachusetts enacted a Medicare mandatory assignment provision, effective April 1986. The fact that the assignment rates shown here are not 100 percent may be explained by the inclusion in the database of billings by practitioners other than allopathic and osteopathic physicians, which are included in the Medicare statutory definition of "physician".

The changing pattern of reasonable charge reductions is due, in part, to overall changes in participation and assignment rates. As shown in table 10, participating physicians account for a growing share of total physician charges. During the first participation period (fiscal year 1985), participating physicians (30.4 percent of all physicians) accounted for 36.0 percent of all physician charges. According to the most recent data available (April–September 1988), the proportion of physicians participating has grown to 37.3 percent, and account for over half (57.6 percent) of all physician charges. Net assignment rates have also increased for nonparticipating physicians. During fiscal year 1985, over half of the charges of nonparticipating physicians were billed on an unassigned basis. During the April–September 1988 period, half of the charges by nonparticipating physicians were billed on an assigned basis. The proportion of charges billed by participation and assignment status varies by State; these data are shown in table 11.

TABLE 10.—DISTRIBUTION OF COVERED CHARGES FOR SERVICES BILLED, BY PARTICIPATION STATUS OF PHYSICIAN AND ASSIGNMENT STATUS OF CLAIM [1]

[In percent]

Time period	Total	Participants	Nonparticipants	
			Assigned	Unassigned
Oct. 1984–Sept. 1985	100.0	36.0	29.5	34.5
Oct. 1985–Mar. 1986	100.0	36.3	29.4	34.3
Apr. 1986–Dec. 1986 [2]	100.0	39.1	28.0	32.9
Jan. 1987–Mar. 1988 [3]	100.0	48.1	25.2	26.7
Apr. 1988–Sept. 1988 [4]	100.0	57.6	21.1	21.3

[1] Rates reflect covered charges for physician claims processed during the period. Data for up to seven carriers missing from various quarters.

[2] The actual participation period was May through December 1986, and the participation agreements were in effect for that time.

[3] The actual participation period is January 1987 through March 1988, and the participation agreements are in effect for that time.

[4] The actual participation period is April 1988 through December 1988 and the participation agreements are in effect for that time. Data for the period April 1988 through September 1988 are the latest available.

TABLE 11.—DISTRIBUTION OF COVERED CHARGES FOR SERVICES BILLED, BY PARTICIPATION STATUS OF PHYSICIAN AND ASSIGNMENT STATUS OF CLAIM, BY STATE, APRIL–SEPTEMBER 1988

Census division/State	Total	Participating physician	Nonparticipating physician	
			Assigned	Unassigned
National	100.0	57.6	21.1	21.3
New England:				
Maine	100.0	75.1	14.5	10.4
New Hampshire	100.0	40.4	25.5	34.2
Vermont	100.0	70.2	20.9	8.9
Massachusetts	100.0	93.7	5.4	0.8
Rhode Island	100.0	89.7	6.8	3.5
Connecticut	100.0	57.5	18.0	24.5
Middle Atlantic:				
New York	100.0	47.1	32.4	20.5
New Jersey	100.0	41.1	27.4	31.5
Pennsylvania	100.0	80.2	13.8	6.0
East North Central:				
Ohio	100.0	55.9	18.6	25.5
Indiana	100.0	56.1	16.0	27.9
Illinois	100.0	53.3	16.5	30.2
Michigan	100.0	81.9	11.1	7.0
Wisconsin	100.0	30.6	32.8	36.6
West North Central:				
Minnesota	100.0	14.9	29.8	55.1

TABLE 11.—DISTRIBUTION OF COVERED CHARGES FOR SERVICES BILLED, BY PARTICIPATION STATUS OF PHYSICIAN AND ASSIGNMENT STATUS OF CLAIM, BY STATE, APRIL–SEPTEMBER 1988—CONT.

Census division/State	Total	Participating physician	Nonparticipating physician	
			Assigned	Unassigned
Iowa	100.0	49.8	14.8	35.5
Missouri	100.0	38.9	31.5	29.6
No. Dakota	100.0	32.4	17.3	50.3
So. Dakota	100.0	16.9	18.7	64.4
Nebraska	100.0	44.5	14.0	41.5
Kansas	100.0	50.0	35.6	14.4
South Atlantic:				
Delaware	100.0	67.1	18.5	14.4
Maryland	100.0	75.7	12.9	11.4
District of Columbia	100.0	71.4	13.5	15.1
Virginia	100.0	64.1	18.8	17.1
West Virginia	100.0	72.9	15.3	11.8
No. Carolina	100.0	53.7	21.6	24.8
So. Carolina	100.0	64.1	19.9	18.0
Georgia	100.0	53.8	23.9	22.3
Florida	100.0	55.1	23.1	21.8
East South Central:				
Kentucky	100.0	57.9	19.7	22.4
Tennessee	100.0	55.9	21.6	22.6
Alabama	100.0	76.5	11.8	11.7
Mississippi	100.0	58.5	24.1	17.4
West South Central:				
Arkansas	100.0	76.1	12.4	11.6
Louisiana	100.0	63.7	17.6	18.6
Oklahoma	100.0	36.7	24.1	18.2
Texas	100.0	47.8	28.0	24.2
Mountain:				
Montana	100.0	27.8	21.5	50.7
Idaho	100.0	11.9	19.8	68.3
Wyoming	100.0	17.9	20.3	61.8
Colorado	100.0	41.4	23.6	35.1
New Mexico	100.0	36.1	31.0	32.8
Arizona	100.0	50.9	18.6	30.5
Utah	100.0	59.5	14.0	26.5
Nevada	100.0	72.6	18.7	7.7
Pacific:				
Washington	100.0	23.4	25.1	51.5
Oregon	100.0	35.0	20.7	44.3
California	100.0	61.7	19.4	19.0
Alaska	100.0	44.6	30.9	24.4
Hawaii	100.0	62.0	16.8	21.2

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[1] In instances in which carrier jurisdictions do not concide with State boundaries, carrier rates were converted to State rates by calculating weights for the relevant counties based on their respective shares of total 1983 Medicare physician spending for physicians' services in the State and determining a weighted average rate. Rates reflect covered charges for physicians claims processed during the period.

DISTRIBUTION OF PHYSICIAN SERVICES

The following tables show the distribution of "reasonable charges" or allowed amounts under the CPR system for calendar year 1987 by various categories of services. The figures are tabulations from the 1987 Part B Medicare Annual Data Procedure file, which is a summary of all claims filed with the Medicare carriers.

The totals shown will differ from total SMI outlay figures for 1987 shown in the budget for several reasons:

The amounts shown in these tables are allowed amounts, rather than reimbursements—that is, they include both Medicare's and the enrollee's share of reasonable charges.

The amounts shown are for services rendered during calendar year 1987; budget figures are for payments made during the year (sometimes calendar and sometimes fiscal year) regardless of when the services were rendered.

The amounts shown are only for services reimbursed by carriers under the CPR system; hence, they do not include Part B payments to hospital outpatient departments or to risk-based prepaid medical plans.

Further, the amounts shown underestimate what they are supposed to represent by a small amount because some claims for services rendered in 1987 had not been processed by carriers at the time the 1987 files were submitted to HCFA, and because some claims recorded had to be eliminated due to recording errors.

Table 12 illustrates that in 1987, 84 percent of allowed amounts under the CPR system were for physicians' services, and another 3 percent were for the services of limited license practitioners—psychologists, podiatrists, optometrists, audiologists, chiropractors, dentists, and physical therapists. Over 3 percent went to independent laboratories in 1987, while nearly 10 percent went to suppliers of medical equipment, prosthetics, and ambulance services.

About 40 percent of all CPR allowed amounts were for hospital inpatient services, and nearly 48 percent of allowed amounts for physicians' services were inpatient. The share of physicians' services that are inpatient has dropped in recent years, from nearly 64 percent in 1981, while the share of services provided in hospital outpatient departments or ambulatory surgicenters has increased—from 4.7 percent in 1981 to 8.6 percent in 1987.

TABLE 12.—ALLOWED AMOUNTS FOR CPR CLAIMS, BY TYPE OF PROVIDER, 1987

Type of provider	Allowed amounts (millions)	Percent of total	Percent inpatient
Physicians	$24,151.0	84.3	47.9
Limited license practitioners [1]	751.0	2.6	2.7
Laboratories	905.0	3.2	0.4
Medical suppliers [2]	2,845.0	9.9	0.5
All providers [3]	28,651.0	100.0	40.5

[1] Includes psychology, podiatry, optometry, audiology, chiropractice, dentistry, and physical therapy.

[2] Includes suppliers of medical equipment prosthetics, and ambulance services.

[3] Total does not include charges for hospital outpatient department facility fees or for risk-based prepaid medical plans since these are not reimbursed under the CPR system.

Source: HCFA.

Table 13 shows the distribution of spending for physicians' services by specialty. (It excludes limited license practitioners, labs, and suppliers.) In 1987, generalists accounted for 32 percent of spending, nonsurgical specialists for 16 percent, and surgical specialists for 36 percent. Radiologists, anesthesiologists, and pathologists (RAPs) together accounted for nearly 15 percent of allowed amounts. Osteopathic physicians accounted for less than 1 percent of total allowed amounts for physicians' services.

The major physician specialties treating the Medicare population, in descending order of importance as measured by total allowed amounts, were general internists (18 percent of allowed amounts), ophthalmologists (13 percent), radiologists (9 percent), general surgeons (nearly 8 percent), and cardiologists (nearly 7 percent).

The share of services provided on an inpatient basis varied by specialty, generally increasing with specialization. About 41 percent of the services of generalists were inpatient in 1987. The inpatient share was 56 percent for nonsurgical specialists and nearly half for surgical specialists.

TABLE 13.—ALLOWED AMOUNTS FOR PHYSICIANS' SERVICES, BY PHYSICIAN SPECIALTY, 1987

Specialty	Allowed amounts (millions)	Percent of total	Percent inpatient
Generalists:			
General practice	$1,063.0	4.4	25.2
Family practice	1,067.0	4.4	30.8
Internal medicine	4,238.0	17.6	46.1
Pediatrics	22.2	.1	25.5
Clinics	1,418.0	5.9	42.4
All generalists	7,809.0	32.3	40.6
Nonsurgical specialists:			
Allergy	34.0	.1	8.2
Cardiology	1,648.0	6.8	66.4
Dermatology	416.0	1.7	2.0
Gastroenterology	543.0	2.2	52.5
Neurology	326.0	1.4	57.5
Psychiatry	326.0	1.3	67.6
Physical medicine	101.0	.4	61.9
Pulmonary disease	331.0	1.4	73.9
Geriatrics	3.0	(1)	43.1
Nephrology	261.0	1.1	54.0
All nonsurgical specialists	3,989.0	16.5	56.3
Surgical specialists:			
General surgery	1,824.0	7.6	76.5
Otolaryngology	265.0	1.1	29.8
Neurosurgery	209.0	.9	86.8
Gynecology	177.0	.7	55.9
Ophthalmology	3,128.0	12.9	7.8
Orthopedic surgery	1,256.0	5.2	67.8
Plastic surgery	120.0	.5	42.7
Colon and rectal surgery	54.0	.2	43.4
Thoracic surgery	787.0	3.3	93.0
Urology	891.0	3.7	64.8
Hand surgery	7.0	(1)	43.2
All surgical specialists	8,717.0	36.1	48.6
Radiology	2,181.0	9.0	40.2
Anesthesiology	1,080.0	4.5	78.8
Pathology	287.0	1.2	61.3
Osteopathy	87.0	.4	26.4
All physicians	24,151.0	100.0	47.9

[1] Less than 0.05 percent.

Source: HCFA.

Table 14 shows the distribution of spending for physicians' services by type of service. About 34 percent of spending was for medical care (nonsurgical) in 1987. About 41 percent of spending was for surgical procedures in total, adding together the amounts for surgeons, assistant surgeons, and anesthesiologists. About 7 percent was for diagnostic laboratory tests, which would include not only blood chemistry analysis and urinalysis, but also tests such as EKGs. More than 10 percent of spending was for radiology, and over 4 percent was for consultations.

TABLE 14.—ALLOWED AMOUNTS FOR PHYSICIANS' SERVICES, BY TYPE OF SERVICE, 1987

Type of service	Allowed amounts (millions)	Percent of total	Percent inpatient
Medical care	$8,199.0	33.9	43.0
Surgery	8,506.0	35.2	56.7
Assistance at surgery	299.0	1.2	90.9
Anesthesia	1,051.0	4.4	78.7
Diagnostic laboratory tests	1,775.0	7.4	24.5
Diagnostic radiology	2,412.0	10.0	35.9
Therapeutic radiology	351.0	1.5	11.5
Consultations [1]	1,081.0	4.5	68.5
Other [2]	477.0	2.0	10.3
All services	24,151.0	100.0	47.9

[1] Includes first and second opinions for surgery.

[2] Includes treatment for renal patients, pneumococcal vaccine, and medical supplies, among other things.

Source: HCFA.

Table 15 lists the top 20 individual services, ranked by total allowed amounts on claims submitted by selected physicians for 1987. The most important exclusion is amounts for the services of anesthesiologists, since there would typically be a charge for anesthesiology for the surgical procedures included in Table 11. The amounts for surgical procedures include claims by both the primary surgeon and any assistant surgeons, but not the amounts for anesthesiologists.

The top 20 services (out of more than 7,000) accounted for 35 percent of all spending for all physicians' services in 1987. Cataract extraction with implantation of an intraocular lens was the top-ranked procedure, accounting by itself for more than 6 percent of total allowed amounts for physicians' services. Other surgical procedures in the top 20 included transurethral resections of the prostate (TURP), hip replacement or arthroplasty, coronary artery bypass surgery, and knee arthroplasty. The remaining services in the top 20 were either visits, consultations, or EKGs.

TABLE 15.—THE TOP 20 SERVICES BILLED BY PHYSICIANS UNDER MEDICARE, 1987

Service code and description	Allowed amounts (millions) [1]	Percent of total [2]
Top 20 services:		
66984—Cataract extraction and IOL	$1,505.0	6.2
90060—Office visit, intermediate	1042.0	4.3
90260—Hospital visit, intermediate	879.0	3.6
90050—Office visit, limited	861.0	3.6
90250—Hospital visit, limited	604.0	2.5
90620—Consultation, comprehensive	448.0	1.9
90220—Initial hospital visit, comprehensive	437.0	1.8
93000—EKG (12 leads)	330.0	1.4
52601—TURP	287.0	1.2
90070—Office visit, extended	284.0	1.2
90270—Hospital visit, extended	270.0	1.1
90040—Office visit, brief	222.0	0.9
90080—Office visit, comprehensive	191.0	0.8
93010—EKG, interpretation and report only	205.0	0.8
90240—Hospital visit, brief	162.0	0.7
27130—Hip replacement	160.0	0.7
27447—Knee arthroplasty	165.0	0.7
90020—Office visit, comprehensive, new patient	173.0	0.7
33512—Coronary artery bypass (3)	167.0	0.7
92014—Ophthalmological exam & eval, comprehensive	152.0	0.6
Sum	8,550.0	35.4

[1] Amounts for surgical procedures include fees for primary and assistant surgeons, but not for anesthesiologists.

[2] The total allowed amount for all physicians' services in all carrier regions in 1987 was $24,151 million.

Source: HCFA.

Table 16 presents total allowed amounts for selected groups of generic services, and shows the percent of total allowed amounts for all physicians' services accounted for by each group. As in Table 15, certain physicians' services—most notably for anesthesiologists—are not included in the allowed amounts for each service group. No attempt was made to define and rank all possible service groups, so that there may be other important service groups that do not appear in the table. For example, diagnostic radiology accounts for 10 percent of allowed amounts for physicians' services (from Table 10), but radiological services do not appear in Table 16.

The 21 service groups shown in table 16 accounted for 45 percent of all allowed amounts for all physicians' services in 1987. The single most costly group was for office visits (accounting for over 12 percent of total allowed amounts for physicians' services), followed by hospital visits (nearly 11 percent). Cataract surgery of all types accounted for 7 percent of total allowed amounts for physicians' services. EKGs accounted for 3 percent of total allowed amounts when all codes for the procedure are considered. It should also be noted that the amount for hemodialysis includes only physician services and does not include the much larger amounts for the facility charges for hemodialysis that are not billed under the CPR reimbursement system.

TABLE 16.—ALLOWED AMOUNTS FOR SELECTED GROUPS OF PHYSICIANS' SERVICES, 1987

Service group	Allowed amounts (millions) [1]	Percent of total
Office visits	$2,972.0	12.3
Hospital visits	2,593.0	10.7
Cataract surgery	1,700.0	7.0
EKG's	730.0	3.0
Coronary artery bypass	488.0	2.0
Cardiac catheterization	353.0	1.5
Colonoscopy	325.0	1.3
Transurethral surgery	287.0	1.2
Emergency room visits	284.0	1.2
Knee arthroplasty	197.0	0.8
Hip arthroplasty	190.0	0.8
SNF visits	138.0	0.6
Thromboendarterectomy	118.0	0.5
Pacemaker implant/removal	114.0	0.5
Nursing home visits	90.0	0.4
Vein bypass	76.0	0.3
Hemodialysis/capd	60.0	0.2
Home visits	57.0	0.2
EEG's	31.0	0.1
Pacemaker tests	29.0	0.1
Prostatectomy	28.0	0.1
Sum	10,861.0	45.0

[1] Amounts for surgical procedures include fees for primary and assistant surgeons, but not for anesthesiologists.

Source: HCFA.

Medicare's reasonable charges for physician services vary by geographic area. Under the current CPR payment system, these geographic variations are largely the result of local variations in actual charges. In general, prices tend to be higher in urban areas, and higher in the Middle Atlantic and Western States. There is limited information suggesting why local prices for physician services show a range of values. What little is known suggests that these patterns are due in part to local variations in availability of insurance, patient income, and supply and demand for services. Table 17 displays a prevailing charge index by State. While prices for individual services may have wider variation than shown in this table, the values shown, based on 1984 prevailing charges, represent the relative prices for a variety of physician services by State, as compared to a national average index value of 100. According to these data, Alaska generally has the highest prices, nearly 50 percent above the national average; Mississippi has the lowest, 25 percent below average. The prices in eight States are more than 10 percent above average while the prices in 24 States are more than 10 percent below average.

TABLE 17.—RANKING OF STATES BY AGGREGATE PREVAILING CHARGE INDEX, 1984

Rank	State	Prevailing charge index
1	Alaska	153.19
2	Hawaii	124.23
3	District of Columbia	121.50
4	California	121.09
5	New York	121.02
6	Nevada	115.49
7	Massachusetts	114.74
8	New Jersey	112.58
9	Rhode Island	110.56
10	Pennsylvania	110.15
11	Michigan	110.04
12	Arizona	109.21
13	Florida	109.12
14	Connecticut	108.15
15	Delaware	106.65
16	Maryland	104.53
17	Washington	98.98
18	Texas	98.73
19	Illinois	97.56
20	Oregon	97.37
21	Oklahoma	96.91
22	Wisconsin	95.71
23	Louisiana	95.12
24	Arkansas	93.67
25	North Dakota	92.13
26	New Mexico	91.96
27	Georgia	90.54
28	Minnesota	89.98
29	Indiana	89.37
30	Kansas	89.18
31	Montana	88.99
32	Maine	88.94
33	North Carolina	88.33
34	Virginia	88.15
35	Missouri	88.00
36	Kentucky	86.61
37	Ohio	86.56
38	Wyoming	86.43
39	Alabama	85.03
40	West Virginia	84.32
41	Colorado	83.64
42	South Dakota	82.77
43	Iowa	82.52
44	Tennessee	82.19
45	Idaho	81.63

TABLE 17.—RANKING OF STATES BY AGGREGATE PREVAILING CHARGE INDEX, 1984—Continued

Rank	State	Prevailing charge index
46	Utah	81.42
47	Nebraska	80.48
48	South Carolina	78.74
49	Vermont	77.30
50	New Hampshire	76.49
51	Mississippi	75.80

Source: McMenamin, P. On Establishing a Geographic Medicare Economic Index: Some Illustrations. Draft contract report to Health Care Financing Administration. HCFA Contract No. 500-87-0005, Dec. 1, 1987. 112 p.

During the 1980s, there have been many changes in the delivery of health care services. Some of the more significant changes effecting Medicare services have been in the delivery of surgical services. First, there has been significant growth in the amount of surgical care provided by some specialties. Second, there has been a dramatic shift in the place of surgical care; that is, surgical care is now frequently provided in outpatient settings whereas previously, most surgical care was provided in inpatient settings.

As shown in table 18, the most significant shift in site of surgical care between 1980 and 1987 was out of inpatient settings and into other settings. Outpatient hospital setting benefited most from this shift, growing from only 3.3 percent of all surgical charges in 1980 to 22 percent in 1987. The proportions of surgery taking place in a physician's office and in other nonhospital settings also grew somewhat. In 1987, less than 60 percent of all surgical care was provided in inpatient settings.

TABLE 18.—CHARGES SUBMITTED TO MEDICARE FOR ALL PHYSICIAN SURGICAL SERVICES, BY PLACE OF SERVICE, 1980 AND 1987

Place of service	Surgical charges [1]		
	Amount in millions	Percent of surgical charges	As percent of total settings charges
1980:			
Total	$3,828	100.0	31.8
Office	445	11.6	12.2
Outpatient hospital	129	3.3	29.5
Inpatient hospital	3,231	84.4	44.1
Other [2]	23	.6	3.7
1987:			
Total	12,868	100.0	34.4
Office	2,001	15.6	16.5
Outpatient hospital	2,884	22.4	52.5
Inpatient hospital	7,273	56.5	41.0
Other [2]	710	5.5	35.1

[1] Amounts shown represent submitted charges prior to "reasonable charge" reductions.

[2] Includes homes, nursing homes, and other places of service, and in 1987 ambulatory surgical centers.

Source: Health Care Financial Administration, Bureau of Data Management and Strategy, Part B Carrier Statistical System.

Table 19 shows the percent of total surgical charges by specialty in 1980 and 1987. In 1980, four specialties (ophthalmology, general surgery, orthopedic surgery and urology) accounted for nearly 60 percent of all Medicare surgical care. While these same four specialties accounted for nearly the same proportion of total surgical care in 1987, the shares among these specialties changed. While ophthalmologists accounted for only 13.6 percent in 1980, by 1987 their share had nearly doubled to 24.1 percent due primarily to the substantial growth in cataract surgery during the 1980s. For three specialties (ophthalmology, gastroenterology, and otology, laryngology and rhinology or ENT), surgical care represented much larger proportions of their total Medicare practice in 1987 than in 1980.

TABLE 19.—SUBMITTED SURGICAL CHARGES UNDER MEDICARE AS A SHARE OF TOTAL SURGICAL CHARGES AND AS A PERCENT OF TOTAL PRACTICE CHARGES, BY MEDICAL SPECIALTY, 1980 AND 1987

Specialty	Percent distribution of surgical charges		Surgical charges as a percent of total practice charges	
	1980	1987	1980	1987
All physicians	100.0	100.0	31.8	34.4
Ophthalmology	13.6	24.1	62.1	71.2
General surgery	22.1	16.2	71.6	74.3
Orthopedic surgery	13.0	10.7	73.6	72.9
Urology	10.7	7.5	75.6	73.6
Thoracic surgery	8.0	7.1	82.2	81.0
Clinic or other group practice	4.7	4.2	25.8	24.4
Internal medicine	4.2	4.3	6.9	9.2
Cardiovascular disease	2.7	4.1	22.4	22.6
Podiatry	3.0	3.1	53.5	61.2
Gastroenterology	1.7	3.7	45.9	65.0
Dermatology	2.4	3.0	60.9	69.3
Neurological surgery	2.9	2.1	70.2	74.8
Othology, laryngology, rhinology	1.9	.2	49.7	70.4
Plastic surgery	1.3	1.5	88.1	87.8
Other	8.4	8.3	....	8.4

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, Part B Carrier Statistical System.

As shown in table 20, many different medical specialties participated in the shift to outpatient surgery. In 1980, only two specialties (dermatology and podiatry) performed the majority of their surgical services in outpatient settings; in these cases, the care was generally provided in the physician's office. In 1987, six specialties provided a majority of their surgical care in outpatient settings: ophthalmology, podiatry, gastroenterology, dermatology, ENT and plastic surgery. While podiatrists and dermatologists continued primarily to work in their offices, the other specialties provided their surgical services in outpatient hospital and ambulatory surgical facilities. Most surgical specialties, such as general, orthopedic, cardiovascular, neurological and thorasic surgeons, remained closely tied to inpatient hospital settings.

TABLE 20.—SUBMITTED SURGICAL CHARGES UNDER MEDICARE, BY MEDICAL SPECIALTY AND PLACE OF SERVICE, 1980 AND 1987

[In percent]

Specialty	1980					1987					
	All settings	Office	Inpatient hospital	Outpatient hospital	Other [1]	All settings	Office	Inpatient hospital	Outpatient hospital	ASC [2]	Other [1]
All physicians	100.0	11.6	84.4	3.3	0.5	100.0	15.6	56.5	22.4	4.1	1.4
Ophthalmology	100.0	7.9	87.1	5.0	.1	100.0	14.2	11.0	57.1	15.1	2.6
General surgery	100.0	4.4	92.6	2.9	.1	100.0	5.6	84.5	9.3	.4	.3
Orthopedic surgery	100.0	6.3	90.2	3.4	.1	100.0	6.7	83.4	9.4	.4	.2
Urology	100.0	8.0	90.6	1.4	.1	100.0	12.7	77.0	9.7	.4	.2
Thoracic surgery	100.0	.8	98.7	.5	([3])	100.0	1.0	97.7	1.2	.1	0
Clinic and other group practice	100.0	10.1	85.3	4.5	.1	100.0	13.6	65.7	18.7	1.3	.8
Internal medicine	100.0	17.5	76.6	5.7	.2	100.0	24.4	53.1	21.3	.6	.7
Cardiovascular disease	100.0	1.7	97.9	.4	([3])	100.0	1.8	95.9	2.2	([3])	.1
Podiatry	100.0	71.3	13.5	.9	14.3	100.0	70.5	4.7	7.2	1.4	16.2
Gastroenterology	100.0	12.0	75.6	12.3	.1	100.0	12.4	49.8	34.6	2.7	.5
Neurological surgery	100.0	1.1	98.5	.5	([3])	100.0	1.2	96.3	2.3	.1	0
Dermatology	100.0	94.6	4.0	.9	.6	100.0	97.4	.9	1.2	.1	.4
Otology, laryngology, rhinology	100.0	12.6	83.7	3.7	([3])	100.0	12.8	12.6	66.8	7.7	.1
Plastic surgery	100.0	13.0	67.2	19.7	.1	100.0	17.6	46.9	32.0	2.5	1.0
Obstetrics/Gynecology	100.0	....				100.0	9.1	81.1	9.2	.5	.2
Other	100.0	....				100.0	26.2	54.2	18.0	.9	.6

[1] Includes homes, nursing homes, and other places of service.

[2] Ambulatory surgical center.

[3] Less than .05.

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, data from the Part B Carrier Statistical System.

In 1987, ophthalmologists provided most (61 percent) of the surgery done in outpatient hospital settings (see table 21). No other single specialty accounted for more than 7 percent of outpatient hospital surgery. The predominance of ophthalmologists in this setting is due to cataract surgery which by itself accounted for 7 percent of total allowed charges in 1987. Ophthalmologists also accounted for the largest proportion of office surgical charges, 22 percent. However, dermatologists and podiatrists also represented significant percentages of office surgical charges, 19 and 14 percent respectively. In inpatient settings, the traditional surgical specialties—general surgery, orthopedic surgery, urology, thoracic surgery and cardiovascular surgery—accounted for nearly 70 percent of all surgical charges.

TABLE 21.—PERCENT DISTRIBUTION OF SUBMITTED SURGICAL CHARGES UNDER MEDICARE, BY SELECTED SPECIALTIES AND SELECTED PLACE OF SERVICE, 1987

Place of service	Percent
Inpatient hospital:	
General surgery	24.2
Orthopedic surgery	15.8
Thoracic surgery	12.2
Urology	10.3
Ophthalmology	4.7
Cardiovascular disease	7.0
Clinic and other group practice	4.9
Internal medicine	4.0
Neurological surgery	3.5
Gastroenterology	3.2
Other medical and surgical specialties	10.2
Total	100.0
Office:	
Ophthalmology	22.0
Dermatology	18.7
Podiatry	14.1
General surgery	5.8
Internal medicine	6.8
Orthopedic surgery	4.6
Urology	6.1
Clinic and other group practice	3.7
Other medical and surgical specialties	18.3
Total	100.0
Outpatient hospital:	
Ophthalmology	61.4
General surgery	6.7
Gastroenterology	5.7
Orthopedic surgery	4.5
Internal medicine	4.1
Clinic and other group practice	3.5

TABLE 21.—PERCENT DISTRIBUTION OF SUBMITTED SURGICAL CHARGES UNDER MEDICARE, BY SELECTED SPECIALTIES AND SELECTED PLACE OF SERVICE, 1987—Continued

Place of service	Percent
Urology	3.3
Plastic surgery	2.1
Otology, laryngology, rhinology	.5
Other medical and surgical specialties	8.3
Total	100.0

Source: Health Care Financing Administration, Bureau of Data Management and Strategy, Data from the Part B Carrier Statistical System.

RECENT LEGISLATION

Recent legislation, beginning with the enactment of DEFRA in 1984, made significant modifications in the physician payment provisions of Medicare.

DEFRA froze physicians' fees under Medicare for the 15-month period, July 1, 1984, through September 30, 1985. Therefore, the annual updating of customary and prevailing charge screens, otherwise slated for July 1, 1984, did not occur. Subsequent fee screen updates were slated to occur on October 1 of future years beginning in 1985. DEFRA established the concept of participating physicians and specified that the first participation period began October 1, 1984. Participating physicians were subject to the 15-month freeze. They were, however, permitted to increase their billed charges during the freeze period. The law included additional incentives for physicians who agreed to become participating physicians. These included the publication of directories identifying participating physicians and the maintenance by carriers of toll free lines to provide beneficiaries with names of participating physicians.

The law specified that nonparticipating physicians could not increase their billed charges during the 15-month freeze period over the amounts charged for the same services during the April 1, 1984, through June 30, 1984, period. DEFRA required the Secretary to monitor charges of nonparticipating physicians and specified penalties for those who failed to comply with the freeze.

The Temporary Emergency Extension Act of 1985 (P.L. 99-107), as amended, extended the fee freeze provisions through March 14, 1986.

COBRA extended the existing payment provisions through April 1986. In April 1986, physicians were given an opportunity to change their participation status for the 8-month period beginning May 1, 1986. Future update and participation cycles begin on January 1 of each year beginning in 1987. Physicians covered under participation agreements on May 1, 1986, received updates in their customary and prevailing charges. The freeze was extended through December 31, 1986, for nonparticipating physicians. COBRA provided that, beginning January 1, 1987, nonparticipating physicians would be subject to the prevailing charge limits applied to participating physicians during the preceding participation period. (See modification contained in Public Law 99-509, discussed below.)

COBRA also provided for the establishment of an independent Physician Payment Review Commission. The mission and ongoing duties are to make recommendations regarding Medicare physician payments. The Commission members were appointed on June 11, 1986.

The Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509) made a number of changes in the physician payment provisions, as follows:

—Beginning in 1987, all participating and all nonparticipating physicians will receive an increase in their prevailing charge levels, above those in effect for the previous period equal to 3.2 percent.

—The 1 percentage point increase over the MEI, which was allowed for participating physicians for the period beginning May 1, 1986, was built into the base for future calculations.

—The Secretary cannot retrospectively revise the calculation of the MEI. The Secretary is required to conduct a study of the MEI to ensure that the index reflects economic changes in an appropriate and equitable manner.

—Nonparticipating physicians are subject to a limit on their actual charges.

—Where the actual charge for a nonassigned elective surgical procedure exceeds $500, the physician is required to disclose to the individual in writing, the estimated charge, the estimated approved charge, the excess of the physician's actual charge over the approved charge, and the applicable coinsurance amount.

Public Law 99-509 authorizes the Secretary under the inherent reasonableness authority, to establish a payment level for physician services based on criteria other than the actual, customary, and prevailing charge for the service. The law specifies criteria and procedures for adjusting payment levels. The Secretary is required to review, by October 1, 1987, the inherent reasonableness of payments for 10 of the most costly procedures paid for under Part B. The law also provided for reductions in prevailing charges for cataract surgical procedures.

Public Law 99-509 requires the Secretary to study and report to Congress by July 31, 1987, concerning the design and implementation of a prospective payment system for payment under Part B for radiology, anesthesiology, and pathology services (RAP services) furnished to hospital inpatients.

COBRA required the Secretary, with the advice of the newly established Physician Payment Commission, to develop a relative value scale (RVS) for physician payments. Public Law 99-509 defers the date the Secretary is required to report on the RVS to July 1, 1989. The potential application date of the RVS is deferred until after December 31, 1989.

The Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203) provides for a number of changes in physician payments. These are as follows:

—The MEI is set to permit faster growth in the prevailing charges of primary care services and for services provided by participating physicians. The differential in prevailing charges between participating and nonparticipating physicians will increase to 5 percent in 1989. The MEI updates in 1988 for primary care services are 3.6 and 3.1 percent for participating and nonparticipating physicians respectively. For other services, the updates are 1.0 and 0.5 percent for participating and nonparticipating physicians. The MEI update in 1988 is delayed from January 1 until April 1.

—The 2.3 percent reduction in payments under Medicare required by the final sequestration order issued under the provisions of the Gramm-Rudman-Hollings Act (as amended) remains in effect through March 31, 1988.

—The prevailing charges of 12 procedures, including cataract and coronary artery bypass surgery, are reduced by 2 percent plus an additional amount up to 15 percent based on a sliding scale; that is, localities with high charges relative to the national average are reduced by a greater amount than areas with low charges.

—The Secretary is required to develop relative value scales (RVS) for radiology, anesthesiology, and pathology services. Certain radiology services provided after January 1, 1989 (services performed by board certified or board-eligible radiologists or by physicians for whom radiology services represent at least 50 percent of their Medicare charges), are to be reimbursed on the basis of an RVS-based fee schedule, set at 97 percent of "budget neutral" fee schedule amounts. Anesthesiology services provided after January 1, 1989, are to be reimbursed based on a nationally defined RVS.

Public Law 100-203 prohibits physicians from billing in excess of the acquisition cost for diagnostic services (other than laboratory tests) that are not performed or supervised by the physician. Physicians are also prohibited from billing patients for laboratory tests that are only covered under Medicare when billed on an assigned basis.

Public Law 100-203 provides for reductions in Medicare payments to physicians to collect past-due obligations arising out of scholarships under the National Health Services Corps Scholarship Program.

The Secretary is required to conduct a variety of studies relating to physician reimbursement and to prepare for the potential implementation of a new reimbursement system based on an RVS. These studies include the development of uniform definitions of physician services, expansion of the on-going cost-based RVS study to include additional services, and a study of technical issues related to implementation of an RVS-based fee schedule for physician services. The Secretary is also required to study issues related to the volume and intensity of services provided under Part B and to study beneficiary liability for Medicare services, including liability for excess charges on unassigned claims.

Section 5. Trade Adjustment Assistance

The trade adjustment assistance (TAA) programs were first established under the Trade Expansion Act of 1962 for the purpose of assisting in the special adjustment problems of workers and firms dislocated as a result of a Federal policy of reducing barriers to foreign trade. As a result of limited eligibility and usage of the programs, criteria and benefits were liberalized under title II of the Trade Act of 1974, Public Law 93-618. The Omnibus Budget Reconciliation Act of 1981 (OBRA), Public Law 97-35, reformed the program for workers as proposed by the Administration. The amendments, particularly in program eligibility and benefits, were intended to reduce program cost significantly and to shift its focus from income compensation for temporary layoffs to return to work through training and other adjustment measures for the long-term or permanently unemployed. The OBRA also made relatively minor modifications in the firm program. Most amendments became effective on October 1, 1981. Both programs were extended at that time for 1 year, to terminate on September 30, 1983.

Public Law 98-120 (H.R. 3813 as amended by the Senate), approved on October 12, 1983, extended the worker and firm TAA programs for 2 years until September 30, 1985. Sections 2671-2673 of the Deficit Reduction Act of 1984, Public Law 98-369, included three provisions (sections 3, 6, and 8 of H.R. 3391 as passed by the House on September 15, 1983) which amended the program for workers to increase the availability of worker training allowances and the level of job search and relocation benefits, and amended the program for firms to increase the availability of industrywide technical assistance.

The termination date of the worker and firm TAA programs was further extended under temporary legislation in the first session of the 99th Congress (Public Laws 99-107, 99-155, 99-181, and 99-189) until December 19, 1985. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), Public Law 99-272 approved April 7, 1986, reauthorized the TAA programs for workers and firms for 6 years retroactively from December 19, 1985, until September 30, 1991, with amendments.

Sections 1421-1430 of Public Law 100-418, the Omnibus Trade and Competitiveness Act of 1988 (OTCA), enacted on August 23, 1988, made significant amendments in the worker TAA program, particularly concerning the eligibility criteria for cash benefits, funding, and administration, further increasing the emphasis on worker training. The amendments also expand TAA eligibility coverage of workers and firms, contingent upon the imposition of an import fee to fund program costs. The OTCA extended TAA program authorization for an additional 2 years until September 30, 1993.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR WORKERS

Trade adjustment assistance for workers under sections 221 through 250 of the Trade Act of 1974, as amended, consists of trade readjustment allowances (TRA), employment services, training and additional TRA allowances while in training, and job search and relocation allowances for certified and otherwise qualified workers. The program is administered by the Employment and Training Administration (ETA) of the Department of Labor through State agencies under cooperative agreements between each State and the Secretary of Labor. ETA processes petitions and issues certifications or denials of petitions by groups of workers for eligibility to apply for TAA. The State agencies act as Federal agents in providing program information, processing applications, determining individual worker eligibility for benefits, issuing payments, and providing reemployment services and training opportunities.

TABLE 1.—NUMBER OF PETITIONS INSTITUTED AND CERTIFIED AND ESTIMATED NUMBER OF WORKERS PETITIONING AND CERTIFIED FOR TRADE ADJUSTMENT ASSISTANCE FROM 1975 THROUGH 1988

Calendar year	Cases instituted		Cases certified		
	Petitions	Estimated workers	Petitions	Percent [1]	Estimated workers
1975	528	210,988	121	50	54,843
1976	1,014	218,544	430	46	143,579
1977	1,289	227,562	411	38	143,716
1978	1,732	171,315	854	42	164,416
1979	2,119	320,714	844	41	221,481
1980	5,347	1,027,277	935	29	585,392
1981	1,134	132,222	260	9	32,992
1982	1,030	170,155	254	20	20,004
1983	959	164,096	482	35	57,094
1984	504	43,812	337	52	15,758
1985	1,392	123,736	491	60	32,098
1986	1,774	166,077	829	39	74,017
1987	1,535	190,881	682	39	86,283
1988	1,948	129,361	659	52	70,501
Total	22,305	3,296,740	7,589	36	1,702,174

[1] Estimated percent of petitioning workers covered by completed cases; figures are not precise but indicate the trend.

Certification requirements

A two-step process is involved in the determination of whether an individual worker will receive trade adjustment assistance: (1) certification by the Secretary of Labor of a petitioning group of workers in a particular firm as eligible to apply; and (2) approval by the State agency administering the program of the application for benefits of an individual worker covered by a certification.

The process begins by a group of three or more workers, their union, or authorized representative filing a petition with the ETA for certification of group eligibility. To certify a petitioning group of workers as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm or subdivision of the firm have been or are threatened to be totally or partially laid off;
2. Sales and/or production of the firm or subdivision have decreased absolutely; and
3. Increased imports of articles like or directly competitive with articles produced by the firm or subdivision of the firm have "contributed importantly" to both the layoffs and the decline in sales and/or production.

The OTCA amendments expanded the potential eligibility coverage to include workers in any firm or subdivision of a firm that engages in exploration or drilling for oil or natural gas. In addition to prospective application, this extension applies retroactively to oil and natural gas workers separated from adversely affected employment after September 30, 1985, if they filed a petition by November 18, 1988 (90 days after date OTCA enactment), were not covered by a prior certification, and could not have been certified eligible prior to the amendments. If an import fee is subsequently imposed (as described below), the OTCA further extends certification eligibility coverage 1 year thereafter to workers with independent firms in any industry that supplies "essential goods or essential services" to firms adversely affected by increased imports.

The Secretary is required to make the eligibility determination within 60 days after a petition is filed. A certification of eligibility to apply for TAA covers workers who meet the requirements and whose last total or partial separation from the firm or subdivision before applying for benefits occurred within 1 year prior to the filing of the petition.

	Thousands
Total estimated number of workers certified	1,702
Industry:	
Automobiles	753
Apparel	196
Steel	170
Footwear	97
Electronics	85
Fabricated metal products	50
Textiles	32

Source: Department of Labor.

State agencies must give written notice by mail to each worker to apply for TAA where it is believed the worker is covered by a certification of eligibility and publish notice of each certification in newspapers of general circulation in areas where certified workers reside. State agencies must also advise each adversely affected worker, at the time that worker applies for UI, of TAA program benefits and the procedures, deadlines, and qualifying requirements for applying, advise each such worker to apply for training before or at the same time he applies for TRA benefits, and promptly interview each certified worker and review suitable training opportunities available.

Qualifying requirements for trade readjustment allowances

In order to receive entitlement to payment of a trade readjustment allowance for any week of unemployment, an individual must be an adversely affected worker covered by a certification, file an application with the State agency, and meet the following qualifying requirements:

1. The worker's first qualifying separation from adversely affected employment occurred within the period of the certification applicable to that worker, i.e., on or after the "impact date" in the certification (the date on which total or partial layoffs in the firm or subdivision thereof began or threatened to begin, but never more than 1 year prior to the date of the petition), within 2 years after the date the Secretary of Labor issued the certification covering the worker, and before the termination date (if any) of the certification.
2. The worker was employed during the 52-week period preceding the week of the first qualifying separation at least 26 weeks at wages of $30 or more per week in adversely affected employment with a single firm or subdivision of a firm. As amended in 1986, a week of unemployment includes the week in which layoff occurs and up to 7 weeks of employer-authorized vacation, sickness, injury, maternity, or military leave, or service as a full-time union representative. Weeks of disability covered by workmen's compensation may also count toward the 26-week minimum.
3. The worker was entitled to unemployment insurance (UI), has exhausted all rights to any UI entitlement, including any extended benefits (EB) or Federal supplemental compensation (FSC) (if in existence), and does not have an unexpired waiting period for any UI. Under the program prior to October 1, 1981, TRA benefits were a supplement to State unemployment insurance and paid concurrently during weeks the worker was eligible for UI. A fundamental change under the 1981 amendments made TRA benefits a continuation of the UI program once UI benefits are exhausted.
4. The worker must not be disqualified with respect to the particular week of unemployment for EB by reason of the work acceptance and job search requirements under section 202(a)(3) of the Federal-State Extended Unemployment Compensation Act of 1970. All TRA claimants in all States are subject to the provisions of the EB "suitable work" test under that Act (i.e., must accept any offer of suitable work, actively engage in seeking work, and register for work) after the end of their regular UI benefit period as a precondition for receiving

any weeks of TRA payments. The EB work test does not apply to workers enrolled or participating in a TAA-approved training program; the test does apply to workers for whom TAA-approved training is certified as not feasible or appropriate.

5. The worker must be enrolled in, or have completed following separation from adversely affected employment within the certification period, a training program approved by the Secretary of Labor in order to receive basic TAA payments, unless the Secretary has determined and submitted a written statement to the individual worker certifying that approval of training is not "feasible or appropriate" (e.g., training is not available that meets the criteria for approval, funding is not available to pay the full training costs, there is a reasonable prospect reasonably foreseeable that the worker will be reemployed by the firm from which separated). No cash benefits may be paid to a worker who, without justifiable cause, has failed to begin participation or has ceased participation in an approved training program until the worker begins or resumes participation, or to a worker whose waiver of participation in training is revoked in writing by the Secretary. This training requirement to encourage and enable workers to obtain early reemployment became effective under the OTCA amendments as of November 21, 1988; this 1988 amendment replaced a 1986 amendment that instituted a job search requirement as a condition for receiving cash benefits.

Cash benefit levels and duration

A worker is entitled to TRA payments for weeks of unemployment beginning the later of (a) the first week beginning more than 60 days after the filing date of the petition that resulted in the certification under which the worker is covered (i.e., weeks following the statutory deadline for certification), or (b) the first week after the worker's first total qualifying separation. As a result of the 1981 amendments, workers can no longer receive retroactive cash benefits for weeks of unemployment occurring up to 1 year prior to the filing of the petition.

The TRA cash benefit amount payable to a worker for a week of total unemployment is equal to, and a continuation of, the most recent weekly benefit amount of unemployment insurance payable to the worker preceding that worker's first exhaustion of UI following the worker's first total qualifying separation under the certification, reduced by any Federal training allowance and disqualifying income deductible under UI law.

The maximum amount of *basic* TRA benefits payable to a worker for the period covered by any certification is 52 times the TRA payable for a week of total unemployment minus the total amount of UI benefits to which the worker was entitled in the benefit period in which the first qualifying separation occurred (e.g., a worker receiving 39 weeks of UI regular and extended benefits could receive a maximum 13 weeks of basic TRA benefits). UI and TRA payments combined are limited to a maximum 52 weeks in all cases involving extended compensation benefits (i.e., a worker who received 52 or more weeks of unemployment benefits would not be entitled to basic TRA). TRA benefits are not payable to workers participating in on-the-job training.

TRA benefits prior to October 1, 1981, were a uniform national standard of 70 percent of the worker's former gross weekly wage not to exceed the average weekly manufacturing wage, reduced by the amount of the worker's unemployment compensation entitlement, 50 percent of any part-time earnings, and certain Federal training allowances. The purpose of shifting cash benefits to State standards and other changes under the OBRA, effective as of October 1, 1981, was to reduce program costs, to remove reemployment disincentives associated with the previous high net wage replacement, and to reduce the inequity in benefit amounts payable to import-impacted workers versus workers laid off for other reasons.

The 1988 amendments essentially restored the moveable 2-year eligibility period for collecting basic TRA in effect prior to the 1981 amendments (i.e., restored eligibility from the most recent rather than the first qualifying separation). The eligibility period for collecting basic TRA is the 104-week period that immediately follows the week in which a total qualifying separation occurs. If the worker has a subsequent total qualifying separation under the same certification, the eligibility period for basic TRA moves from the prior eligibility period to 104 weeks after the week in which the subsequent total qualifying separation occurred. This amendment also applies retroactively to workers who experienced a total qualifying separation in the period beginning on August 13, 1981 (date of enactment of the 1981 amendments), and ending on April 7, 1986 (date of enactment of the 1986 amendments), if the worker is enrolled in an approved training program, has not failed or ceased to participate in the program without justifiable cause, and has been unemployed continuously since the total separation (aside from seasonal employment, odd jobs, or part-time temporary employment).

A worker may receive up to 26 *additional* weeks of TRA benefits (up to a total maximum of 78 weeks) if that worker is participating in approved training in order to assist in completing such training. To receive the additional benefits, the worker must apply for the training program within 210 days after certification or first qualifying separation, whichever date is later. Additional benefits may be paid only during the 26-week period that follows the last week of entitlement to basic TRA, or that begins with the first week of training if the training begins after the exhaustion of basic TRA.

As provided in the 1988 amendments, a worker participating in approved training will continue to receive basic and additional TRA payments during breaks in such training if the break does not exceed 14 days, if the worker was participating in the training before the beginning of the break, resumes participation in the training after the break ends, and the break is provided for in the training schedule. Prior to the OTCA amendments, the worker had to be actually engaged in training in a particular week to be entitled to additional TRA for that week. Weeks when TRA is not payable because of this break provision will still count against the eligibility periods for both basic and additional TRA.

TABLE 2.—TOTAL OUTLAYS FOR TRADE READJUSTMENT ALLOWANCES, NUMBER OF RECIPIENTS, AVERAGE WEEKLY PAYMENTS AND DURATION, FISCAL YEARS 1976 THROUGH 1994

Fiscal year	Total outlays (millions)	Total number of recipients (thousands)	Average weekly payment per recipient	Average week's duration
1975 (4th quarter)	$71	47	$58	26.0
1976[1]	79	62	47	27.3
1977	148	111	57	23.4
1978	257	156	68	24.3
1979	256	132	70	27.4
1980	1,622	532	126	24.1
1981	1,440	281	140	36.5
1982	103	30	119	28.4
1983	37	30	120	10.1
1984	35	16	139	16.0
1985	43	20	133	15.1
1986	116	40	144	19.0
1987	[2] 209	[2] 55	[2] 155	[2] 24
1988	[2] 186	[2] 47	[2] 163	[2] 24
1989[3]	[4] 294	78	172	28
1990[3]	209	47	180	27
1991[3]	194	42	188	27
1992[3]	188	39	196	27
1993[3]	182	36	205	27
1994[3]	174	33	214	27

[1] Fiscal year 1976 is the first full year of experience under the program as amended by the Trade Act of 1974.

[2] Estimated by the Department of Labor.

[3] Fiscal years 1989 through 1994 numbers are CBO January 1989 baseline estimates.

[4] Includes $5 million for a wage supplement demonstration project and $17 million for retroactive payments primarily to workers in Michigan.

NA: Not available.

Note: The above figures relate only to trade readjustment allowances; administrative expenses and outlays for employment services, training, and job search and relocation allowances are not included.

Source: Department of Labor.

Training and other employment services, job search and relocation allowances

Training and other employment services and job search and relocation allowances are available through State agencies to certified workers whether or not they have exhausted UI benefits and become eligible for TRA payments.

Employment services consist of counseling, vocational testing, job search and placement, and other supportive services, provided for under any other Federal law.

Training, preferably on-the-job, shall be approved for a worker if the following six conditions are met:

(1) There is no suitable employment available;
(2) The worker would benefit from appropriate training;

(3) There is a reasonable expectation of employment following training completion;

(4) Approved training is reasonably available from government agencies or private sources;

(5) The worker is qualified to undertake and complete such training; and

(6) Such training is suitable for the worker and available at a reasonable cost.

If training is approved, the worker is entitled to payment of the costs from the Secretary directly or through a voucher system, unless they have been paid or are reimbursable under another Federal law. On-the-job training costs are payable only if such training is not at the expense of currently employed workers. The 1988 amendments added remedial education as a separate and distinct approvable training program, whereas previously it was approvable only as part of a broader training program that also included skills training.

The OTCA amendments converted training from an entitlement to the extent appropriated funds were available, as provided in the 1986 amendments, to an entitlement without regard to the availability of funds to pay the training costs. Pursuant to the OTCA amendments, effective on August 23, 1988, approved training is an entitlement in any case where the six criteria for approval are reasonably met, up to a $80 million statutory ceiling on annual fiscal year training costs (including job search and relocation allowances and subsistence payments) payable from TAA funds. Up to this limit workers are entitled to have the costs of approved training paid on their behalf. If the Secretary foresees that the $80 million ceiling will be exceeded in any fiscal year, the Secretary can decide how remaining TAA funds shall be apportioned among the States for the balance of that year. If an import fee is imposed, the entitlement ceiling will be raised to $120 million 1 year thereafter to accommodate expanded training costs for secondary workers.

As a result of the OTCA amendments, costs of approved TAA training may be paid solely from TAA funds, solely from other Federal or State programs or private funds, or from a mix of TAA and public or private funds, except if the worker in the case of a nongovernmental program would be required to reimburse any portion of the costs from TAA funds. Duplicate payment of training costs is prohibited, and workers are not entitled to payment of training costs from TAA funds to the extent these costs are paid or shared from other sources (i.e., training may still be approved if the fiscal year TAA funding entitlement limit is reached if the training costs are paid from outside sources).

Supplemental assistance is available to defray reasonable transportation and subsistence expenses for separate maintenance when training is not within the worker's commuting distance, equal to the lesser of actual per diem expenses or 50 percent of the prevailing Federal per diem rate for subsistence and prevailing mileage rates under Federal regulations for travel expenses.

Job search allowances are available to certified workers who cannot obtain suitable employment within their commuting area, are totally laid off, and who apply within 1 year after certification or last total layoff, whichever is later, or within 6 months after concluding training. As amended in 1981 and 1984, the allowance for reimbursement is equal to 90 percent of necessary job search expenses, based on the same increased supplemental assistance rates described above, up to a maximum amount of $800. The 1986 amendments require the Secretary of Labor to reimburse workers for necessary expenses incurred to participate in an approved job search program.

Relocation allowances are available to certified workers totally laid off at time of relocation who have been able to obtain an offer of or actual suitable employment only outside their commuting area, who apply within 14 months after certification or last total layoff, whichever is later, or within 6 months after concluding training, and whose relocation takes place within 6 months after application or completion of training. As amended in 1981 and 1984, the allowance is equal to 90 percent of reasonable and necessary expenses for transporting the worker, family, and household effects, based on the same increased supplemental assistance rates described above, plus a lump sum payment of three times the worker's average weekly wage up to a maximum amount of $800.

TABLE 3.—TRAINING, JOB SEARCH, AND RELOCATION ALLOWANCES: TOTAL NUMBER OF WORKERS AND OUTLAYS, FISCAL YEARS 1976 THROUGH 1988

Fiscal year	Total number			Total outlays (millions) [1]
	Entered training	Job searches	Relocations	
1975 (4th quarter)	463	158	44	
1976	823	23	26	$2.7
1977	4,213	277	191	4.0
1978	8,337	1,072	631	12.8
1979	4,458	1,181	855	13.5
1980	[2] 9,475	931	629	6.0
1981	[2] 20,386	1,491	2,011	4.2
1982	5,844	697	662	19.4
1983	11,299	696	3,269	36.0
1984	6,821	799	2,220	19.0
1985	7,424	916	1,692	30.2
1986	9,400	1,053	1,844	29.9
1987	[3] 18,000	[3] 1,864	[3] 1,518	49.9
1988	[4] 10,300	[3] 1,160	[3] 1,485	54.3
Total	[3] 117,243	[3] 12,318	[3] 17,077	281.9

[1] Excludes administrative costs.

[2] Of total workers entering training, 5,640 (59 percent) in 1980 and 18,940 (94 percent) in 1981 self-financed their training costs.

[3] Estimated.

[4] A significant number of workers had training costs paid with Job Training Partnership Act funds when TAA funds were not available.

Source: Department of Labor.

Funding

Federal funds, as an entitlement from general revenues under the Federal Unemployment Benefit Account (FUBA) in the Department of Labor, cover the portion of the worker's total entitlement represented by the continuation of UI benefit levels in the form of TRA payments, plus the salaries and expenses for ETA personnel administering the program. Funds made available under grants to States defray expenses of any employment services. Funding for training, job search and relocation allowances, and related expenses is an annual appropriated entitlement under the Training and Employment Services account of the Department of Labor.

For fiscal year 1989, $47,870,000 is appropriated for training and job search and relocation allowances, including necessary related administrative expenses. Under the CBO January 1989 baseline, annual outlays for training, job search, and reallocation allowances are estimated to be $80 million in fiscal years 1989 through 1994. Estimated outlays and appropriations for trade readjustment allowance payments in fiscal year 1989 total $294 million.

The States are reimbursed from Treasury general revenues for benefit payments and other costs incurred under the program. A penalty under section 239 of the Trade Act of 1974 provides for reduction by 15 percent of the credits for State unemployment taxes which employers are allowed against their liability for Federal unemployment tax if a State has not entered into or has not fulfilled its commitments under a cooperative agreement.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

Section 251 through 264 of the Trade Act of 1974, as amended, contain the procedures, eligibility requirements, benefits and their terms and conditions, and administrative provisions of the trade adjustment assistance program for firms adversely impacted by increased import competition. Administration of the program was transferred in 1982 within the Department of Commerce from the Economic Development Administration to the International Trade Administration. Amendments in 1986 under the COBRA eliminated financial assistance (direct loan or loan guarantee) benefits, increased government participation in technical assistance, and expanded the criteria for firm certification.

Program benefits now consist of technical assistance for petitioning firms which qualify under a two-step procedure: (1) certification by the Secretary of Commerce that the petitioning firm is eligible to apply, and (2) approval by the Secretary of Commerce of the application by a certified firm for benefits, including the firm's proposal for economic adjustment.

To certify a firm as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm have been or are threatened to be totally or partially laid off;
2. Sales and/or production of the firm have decreased absolutely, or sales and/or production that accounted for at least 25 percent of total production or sales of the firm during the 12

months preceding the most recent 12-month period for which data are available have decreased absolutely; and

3. Increased imports of articles like or directly competitive with articles produced by the firm have "contributed importantly" to both the layoffs and the decline in sales and/or production.

The 1988 amendments expanded potential eligibility coverage of the program to include firms that engage in exploration or drilling for oil or natural gas. Unlike the worker program, this extension applies only prospectively after August 23, 1988. If an import fee is subsequently imposed (as described below), the OTCA further extends certification eligibility coverage 1 year thereafter to firms in any industry that supply "essential goods or essential services" to firms adversely affected by increased imports.

A certified firm may file an application with the Secretary of Commerce for trade adjustment assistance benefits at any time within 2 years after the date of the certification of eligibility. The application must include a proposal by the firm for its economic adjustment. The Secretary may furnish technical assistance to the firm in preparing its petition for certification and/or in developing a viable economic adjustment proposal.

The Secretary approves the firm's application for assistance only if he determines that its adjustment proposal (a) is reasonably calculated to make a material contribution to the economic adjustment of the firm; (b) gives adequate consideration to the interests of the workers in the firm; and (c) demonstrates that the firm will make all reasonable efforts to use its own resources for economic development.

Benefits

Technical assistance may be given to implement the firm's economic adjustment proposal in addition to, or in lieu of, precertification assistance or assistance in developing the proposal. It may be furnished through existing government agencies or through private individuals, firms, and institutions (including private consulting services), or by grants to intermediary organizations, including regional Trade Adjustment Assistance Centers. As amended by the COBRA, the Federal Government may bear the full cost of technical assistance to a firm in preparing its petition for certification. However, the Federal share cannot exceed 75 percent of the cost of assistance furnished through private individuals, firms, or institutions for developing or implementing an economic adjustment proposal. Grants may be made to intermediate organizations to defray up to 100 percent of their administrative expenses in providing technical assistance.

As amended in 1984, the Secretary of Commerce also may provide technical assistance of up to $10 million annually per industry to establish industrywide programs for new product or process development, export development, or other uses consistent with adjustment assistance objectives. The assistance may be furnished through existing agencies, private individuals, firms, universities, and institutions, and by grants, contracts, or cooperative agreements to associations, unions, or other nonprofit organizations of industries in which a substantial number of firms or workers have been certified.

Funding

Funds to cover all costs of the program are subject to annual appropriations to the International Trade Administration of the Department of Commerce from general revenues. For fiscal year 1989, a total of $5.8 million was appropriated for the program.

IMPORT FEE AND TRUST FUND

Section 1428 of the OTCA requires the President to undertake negotiations under the General Agreement on Tariffs and Trade (GATT) and with parties to bilateral free trade areas to allow any country to impose a small uniform fee not to exceed 0.15 percent ad valorem on all imports to such country to fund programs which directly assist adjustment to import competition. The fee would be imposed on all U.S. imports (with certain limited exceptions) at a uniform rate equal to the cost of the worker and firm TAA programs or 0.15 percent ad valorem, whichever is less, 30 days after the President certifies to Congress there is GATT agreement. The President shall proclaim an import fee in the absence of GATT agreement if such agreement has not been reached within 2 years (by August 23, 1990), unless the President determines and notifies Congress that imposition of the fee is not in the national economic interest, or if such a determination is overridden by Congress by enactment of a joint disapproval resolution passed within 90 days after the 2 years under expedited procedures.

If the import fee is imposed, the worker and firm TAA programs would be funded from a newly created trust fund financed from quarterly transfers of general revenues equivalent to amounts attributable to the import fee. The amount equivalent to the maximum level of the import fee of 0.15 percent ad valorem would constitute an overall ceiling on total expenditures for the worker and firm TAA programs, as well as a "cap" on the total benefit entitlement for workers. Within that overall "cap", a second "cap" of $120 million would apply to worker training entitlement costs. Funding for the worker TAA program would continue to be an appropriated entitlement; firm TAA would continue to be a discretionary program subject to appropriations.

LEGISLATIVE CHANGES IN 1988

Sections 1421–1430 of the Omnibus Trade and Competitiveness Act of 1988 made a number of significant amendments to the TAA programs for workers and firms under Chapter 2 of Title II of the Trade Act of 1974 and extended the programs for 2 years until September 30, 1993. Most of the amendments took effect on date of enactment, August 23, 1988. The major provisions are as follows:

Eligibility coverage

Program eligibility is extended to workers and firms that engage in exploration or drilling for oil or natural gas.

Program eligibility is extended to otherwise qualified secondary workers and firms in any industry that supply "essential goods or essential services" to firms directly impacted by increased imports, conditioned upon imposition of an import fee within 2 years and effective 1 year thereafter.

TRA benefits

The most recent, rather than the first, separation from employment shall be used for determining the beginning of a worker's 104-week eligibility period to collect TRA benefits; this change also applies retroactively to workers laid off between August 13, 1981, and April 7, 1986, if they have been continuously unemployed since layoff and are enrolled in training.

The Department of Labor must establish a demonstration project to evaluate supplemental wage allowances as an option for workers qualified for TRA who take new full-time employment paying less than their previous job, and report the results to Congress.

Training

Participation in training is required as a condition for an individual worker to receive basic weekly cash benefits (TRA), unless the requirement is waived because training is not feasible or appropriate.

TRA benefits are payable to workers in training during scheduled program breaks of no more than 14 days.

Approved worker training is made an appropriated entitlement from general revenues, "capped" at $80 million per fiscal year; training must be approved and the worker is entitled to payment of the cost if six statutory criteria are met, including a new sixth criteria requiring that training be appropriate for suitable employment and available at a reasonable cost; the appropriated entitlement shall be funded from an import fee 1 year after a fee is imposed and the "cap" raised to $120 million to include training of secondary workers.

Import fee

The President must seek GATT agreement and agreement of parties to bilateral free trade areas to permit imposition by countries of a small uniform duty on all imports (with limited exceptions) to fund TAA-type programs, not to exceed program costs or a maximum 0.15 percent ad valorem. If negotiations are not successful within 2 years, the President shall impose a fee unless he determines and reports to Congress that imposition is not in the national economic interest; the fee would be imposed upon enactment of a joint disapproval resolution passed by Congress within 90 days under expedited procedures.

A trust fund consisting of revenues from an import fee shall be established if and when an import fee is imposed.

Program administration

Training costs may be paid totally or partially from other Federal or State programs or from private sources.

State agency responsibilities for providing notice and program benefit information to workers are expanded; coordination is provided at the State level in the administration of training and other employment services between worker TAA and the dislocated worker program under the Job Training Partnership Act.

Section 6. Unemployment Compensation

OVERVIEW

The Social Security Act of 1935 (Public Law 74-271) created the Federal-State unemployment compensation (UC) system. It has two main objectives: (1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and (2) to help stabilize the economy during recessions. The U.S. Department of Labor oversees the system, but each State administers its own program. Because Federal law defines the District of Columbia, Puerto Rico, and Virgin Islands as "States" for the purposes of unemployment compensation, there are 53 State programs.

The Federal Unemployment Tax Act of 1939 (Public Law 76-379) and titles III, IX, and XII of the Social Security Act form the framework of the system. The Federal Unemployment Tax Act (FUTA) currently imposes a 6.2 percent gross tax rate on the first $7,000 paid annually by covered employers to each employee. Employers in States with programs approved by the Federal Government and with no delinquent Federal loans may credit 5.4 percentage points against the 6.2 percent tax rate, making the minimum, net Federal unemployment tax rate 0.8 percent. This Federal revenue finances administration of the system, half of the Federal-State extended benefits program, and a Federal account for State loans. In theory, the States are supposed to use the revenue turned back to them by the 5.4 percent credit to finance their regular State programs and half of the Federal-State extended benefits program.

In 1976 Congress passed a temporary surtax of 0.2 percent of taxable wages to be added to the permanent FUTA tax rate (Public Law 94-566). Thus, the current 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent and a temporary surtax rate of 0.2 percent. Under the Ominibus Budget Reconciliation Act of 1987 (P.L. 100-203), the 0.2 percent surtax was extended for 3 years through 1990.

TABLE 1.—UNEMPLOYMENT COMPENSATION PROGRAM STATISTICS

	Fiscal year—											
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 (estimated) [2]	1990 (projected) [2]
Total civilian unemployment rate (percent)	5.8	6.8	7.3	9.1	10.1	7.8	7.2	7.0	6.4	5.6	5.3	5.2
Insured unemployment rate (percent) [1]	3.1	3.8	3.5	4.4	4.3	2.9	2.9	2.8	2.5	2.2	2.0	2.0
Coverage (millions of individuals)	86.1	87.0	88.2	86.8	86.3	89.9	93.0	95.7	97.9	100.6	102.4	104.0
Average weekly benefit amount (current dollars)	85	96	102	114	120	119	122	129	135	140	148	156
In 1988 dollars [3]	138	140	135	141	142	135	134	138	141	140	NA	NA
State unemployment compensation:												
Beneficiaries (millions of individuals)	7.8	9.9	8.8	11.4	9.9	7.6	8.4	8.4	7.5	6.8	6.9	7.0
Regular benefit exhaustions (millions of individuals)	2.0	2.7	3.2	3.7	4.6	2.8	2.6	2.6	2.5	1.9	1.9	2.0
Regular benefits paid (billions of dollars)	8.74	12.95	13.46	19.34	20.84	13.3	14.3	15.6	15.0	13.2	13.6	14.0
Extended benefits (State share: billions of dollars)	.12	.56	1.06	.93	1.21	.03	.03	.05	.04	.01	(6)	(6)
State tax collections (billions of dollars)	12.27	11.91	12.37	12.77	14.43	19.04	20.01	18.8	19.1	18.3	17.4	16.5
State trust fund impact (income-outlays: billions of dollars)	+3.41	−1.60	−2.15	−7.50	−7.62	+5.70	+5.65	+3.17	+4.11	+5.09	+6.33	5.41
Federal unemployment compensation accounts:												
Federal tax collections (billions of dollars) [4]	2.91	3.19	3.26	3.18	3.58	5.02	4.44	4.08	5.08	5.52	5.44	5.61
Outlays: Federal extended benefits share plus Federal supplemental benefits (billions of dollars)	.12	.56	1.06	.97	6.80	3.01	.03	.05	.04	(6)	(6)	(6)
Administrative costs (billions of dollars):												
Unemployment Insurance Service	.97	1.15	1.32	1.42	1.70	1.58	1.58	1.57	1.56	1.61	1.65	1.73
Employment Service [5]	.70	.73	.73	.68	.72	.76	.92	.93	.90	.95	.96	.96
Total administrative costs	1.67	1.88	2.05	2.10	2.42	2.31	2.50	2.50	2.46	2.56	2.61	2.69

[1] The average number of workers claiming State unemployment compensation benefits as a percent of all workers covered.

[2] Based on President's 1990 budget.

[3] Adjusted using CPI–X1.

[4] Net of reduced credits.

[5] Includes Bureau of Labor Statistics and Veterans' Employment Service.

[6] Less than $5 million.

Sources: Office of Research, Legislation and Program Policies/ETA/UIS/DOL, Division of Actuarial Services, and U.S. Budget Appendixes.

The Federal Unemployment Tax Act (FUTA) determines covered employment. FUTA also imposes certain requirements on the State programs, but the States generally determine individual qualification requirements, disqualification provisions, eligibility, weekly benefit amounts, potential weeks of benefits, and the State tax structure used to finance all of the regular State benefits and half of the extended benefits.

The Social Security Act provides for the administrative framework. Title III authorizes Federal grants to the States for administration of the State UC laws. Title IX authorizes the various components of the Federal Unemployment Trust Fund. Title XII authorizes advances or loans to insolvent State UC programs.

The Unemployment Trust Fund

The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal Unemployment Trust Fund. The Unemployment Trust Fund has 59 accounts. The accounts consist of 53 State UC program accounts, the Railroad Unemployment Insurance Account, Railroad Administration Account, and four Federal accounts. The status of each State program account at the beginning of fiscal year 1989 is shown in table 2.

The economic expansion has improved the fiscal condition of the unemployment trust fund. State debt declined from $2.9 billion at the beginning of fiscal year 1988 to $1.2 billion at the beginning of fiscal year 1989. The number of States with Federal loans decreased from 5 to 2 over the same time period. Balances as a percent of total wages in a State increased in 52 States and declined in the remaining State. Balances as a percent of total wages in a State ranged from 0.2 percent in Texas to 6.7 percent in Puerto Rico. A balance of 2.0 percent of total wages paid in a State would help most States to avoid borrowing during a recession. In the aggregate, reserves were at 1.8 percent of wages paid in the United States.

The four Federal accounts in the trust fund are: (1) the Employment Security Administration Account (ESAA), which funds administration; (2) the Extended Unemployment Compensation Account (EUCA), which funds the Federal half of the Federal-State extended benefits program; (3) the Federal Unemployment Account (FUA), which funds loans to insolvent State UC programs; and (4) the Federal Employee Compensation Account (FECA), which funds benefits for Federal civilian and military personnel authorized under 5 U.S.C. 85. Federal unemployment taxes finance the ESAA, EUCA, and FUA, but general revenues finance the FECA. Present law authorizes interest-bearing loans to ESAA, EUCA, and FUA from the general fund.

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1989

[Dollars in millions]

State	1989 beginning balance	Minus loans outstanding at beginning of 1989	1989 adjusted beginning balances	Adjusted 1989 beginning balance as a percent of total wages in State [2]
Alabama	$568			2.7
Alaska	81			2.2
Arizona	463			2.2
Arkansas	123			1.1
California	4,646			2.0
Colorado	149			.6
Connecticut	327			1.0
Delaware	165			3.0
District of Columbia	87			1.0
Florida	1,896			2.5
Georgia	913			2.0
Hawaii	281			4.3
Idaho	160			3.7
Illinois	768			.9
Indiana	614			1.7
Iowa	401			2.8
Kansas	411			2.5
Kentucky	323			1.8
Louisiana	138			.7
Maine	171			2.5
Maryland	586			1.8
Massachusetts	1,153			2.0
Michigan	1,155	953	202	.3
Minnesota	247			.8
Mississippi	379			3.6
Missouri	394			1.2
Montana	58			1.5
Nebraska	101			1.2
Nevada	265			3.2
New Hampshire	185			2.2
New Jersey	2.271			3.2
New Mexico	140			2.2
New York	3,207			2.1
North Carolina	1,333			3.2
North Dakota	28			1.1

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1989—Continued

[Dollars in millions]

State	1989 beginning balance	Minus loans outstanding at beginning of 1989	1989 adjusted beginning balances	Adjusted 1989 beginning balance as a percent of total wages in State [2]
Ohio	414			.6
Oklahoma	199			1.2
Oregon	552			3.4
Pennsylvania	1,331	199	1,132	1.5
Puerto Rico	406			6.7
Rhode Island	263			4.0
South Carolina	308			1.6
South Dakota	44			1.7
Tennessee	577			1.9
Texas	219			.2
Utah	182			2.2
Vermont	152			4.6
Virginia	651			1.6
Virgin Islands	22			5.4
Washington	958			3.4
West Virginia	125			1.5
Wisconsin	686			2.2
Wyoming	30			1.3
Total [1]	31,306	1,1513	30,155	1.8

[1] Figures may not correspond exactly in U.S. Treasury data because of rounding.

[2] Total wages in the State for the 12 months ending March 31, 1988.

Source: U.S. Departments of Labor and Treasury.

Table 3 summarizes the financial status of these Federal accounts at the beginning of fiscal year 1989. The FUA owed the general fund about $1.9 billion. This is a decrease of $2.3 billion or 54 percent below the prior year.

TABLE 3.—BALANCES IN THE FEDERAL ACCOUNTS OF THE UNEMPLOYMENT TRUST FUND AT THE BEGINNING OF FISCAL 1989

[In millions of dollars]

Accounts	Beginning balance	Minus general fund advances	Net beginning balance
Employment Security Administration	1,856	0	1,856
Extended unemployment compensation	3,611	0	3,611
Federal unemployment (State loans)	2,026	−1,932	94
Federal employee compensation	80	0	80

Source: U.S. Department of Treasury.

BENEFITS

Coverage

In order to qualify for benefits, an unemployed person usually must have worked recently for a covered employer for a specified period of time and for a certain amount of wages. About 101 million individuals are covered by UC. This is approximately 97 percent of all wage and salary workers or about 85 percent of all employed persons.

The Federal Unemployment Tax Act (FUTA) covers certain employers that State laws also must cover for employers in the States to qualify for the 5.4 percent Federal credit. Since employers in the States would lose this credit and their employees would not be covered if the States did not have this coverage, all States cover the following groups: (1) Except for nonprofit organizations, State-local governments, certain agricultural labor, and certain domestic service, FUTA covers employers who paid wages of at least $1,500 during any calendar quarter or who employed at least one worker in at least 1 day of each of 20 weeks in the current or prior year; (2) FUTA covers agricultural labor for employers who paid cash wages of at least $20,000 for agricultural labor in any calendar quarter or who employed 10 or more workers in at least 1 day in each of 20 different weeks in the current or prior year. In addition, section 3306(c)(1) of FUTA exempts certain alien farmworkers until January 1993; and (3) FUTA covers domestic service employers who paid cash wages of $1,000 or more for domestic service during any calendar quarter in the current or prior year.

FUTA requires coverage of nonprofit organization employers of at least four workers for 1 day in each of 20 different weeks in the current or prior year and State-local governments without regard to the number of employees. Nonprofit and State-local government organizations are not, however, required to pay Federal unemployment taxes, but instead may choose to reimburse the system for benefits paid to their laid off employees.

States may cover certain employment not covered by FUTA, but most States have not expanded FUTA coverage significantly. The excluded coverage involves: (1) self-employment; (2) certain agricultural labor and domestic service; (3) service for relatives; (4) service of patients in hospitals; (5) certain student interns; (6) certain alien farmworkers; (7) certain seasonal camp workers; and (8) railroad workers.

The number of covered workers receiving unemployment compensation

Although the UC system covers about 85 percent of all employed persons, table 4 shows that on average only about 1 out of 3 unemployed persons were receiving UC benefits in 1988. This compares with a peak of 81 percent of the unemployed receiving UC benefits in April 1975 and a low point of about 26 percent in October 1987.

TABLE 4.—INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT

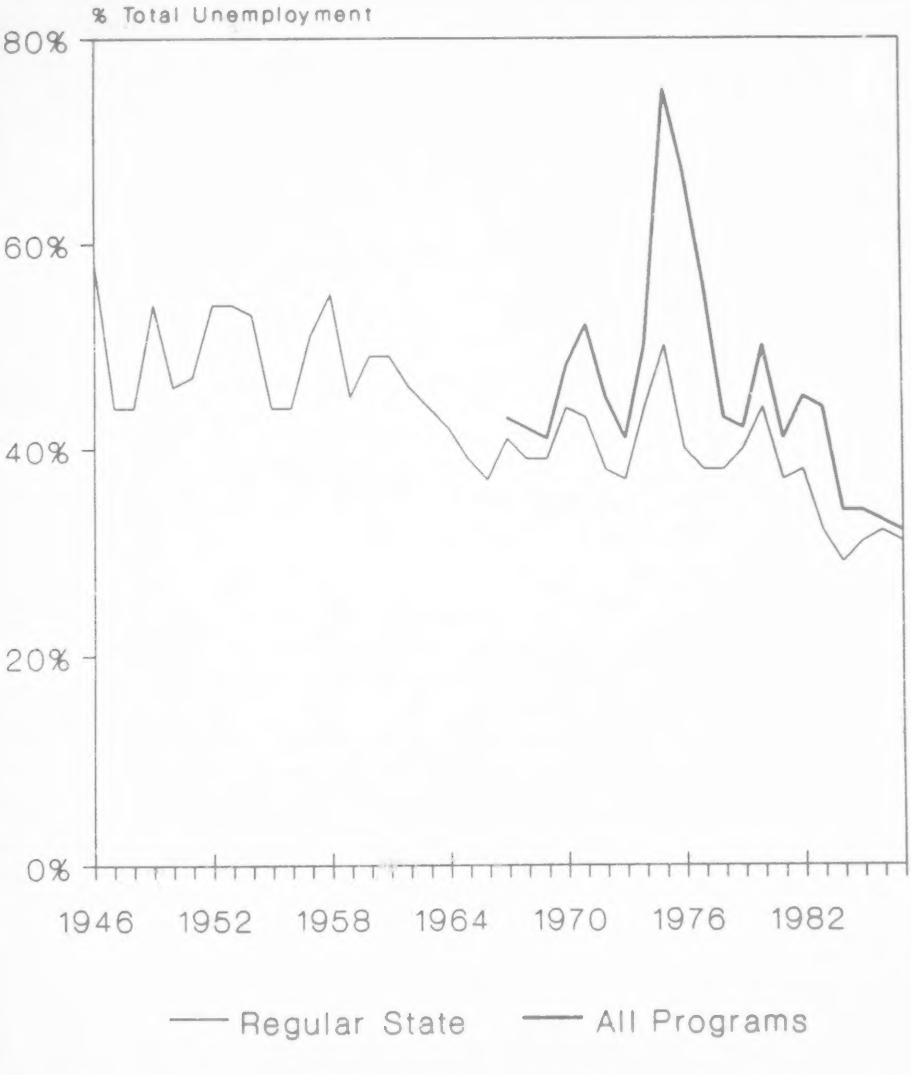
Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1967.....	52	52	54	54	50	30	39	41	33	33	35	47	43
1968.....	57	50	52	50	45	26	34	38	33	34	38	48	42
1969.....	54	54	52	48	43	27	35	36	31	33	40	51	41
1970.....	57	54	52	53	53	36	42	45	42	44	48	53	48
1971.....	58	58	61	59	56	42	45	48	44	46	47	55	52
1972.....	56	58	56	52	49	36	41	38	33	34	38	47	45
1973.....	51	46	46	44	43	31	36	37	34	38	38	48	41
1974.....	53	54	57	60	55	40	43	44	40	42	48	60	50
1975.....	66	73	77	81	79	72	77	79	73	74	76	80	76
1976.....	78	75	76	73	72	58	66	66	60	59	60	63	67
1977.....	67	66	66	66	59	46	52	49	47	48	49	57	56
1978.....	54	54	50	47	44	36	39	42	35	37	34	43	43
1979.....	48	48	47	47	42	33	39	38	37	38	40	49	42
1980.....	52	51	53	52	49	45	49	49	55	49	50	54	50
1981.....	54	50	48	46	40	35	37	37	36	34	38	41	41
1982.....	47	44	48	49	45	40	42	42	43	48	49	47	45
1983.....	50	53	51	53	53	40	39	36	34	33	39	41	44
1984.....	40	38	38	36	34	30	31	31	30	31	31	38	34
1985.....	40	41	41	39	32	28	30	30	28	27	32	37	34
1986.....	38	36	37	35	32	29	32	32	29	30	32	37	33
1987.....	37	37	38	35	31	28	30	29	28	26	29	34	32
1988 [1]..	37	37	37	35	31	28	30	29	27	27	30	34	32

[1] Based on preliminary data.

Source: USDOL/ETA/UIS, Division of Actuarial Services.

Chart 1 shows the proportion of unemployed receiving benefits. The thin bottom line shows the percentage of unemployed receiving UC from regular State programs; the thicker top line shows the percentage aided by all UC programs combined, namely, the Federal-State EB program, temporary supplemental benefit programs, and UC for unemployed Federal and ex-servicemen.

CHART 1.—UNEMPLOYMENT COMPENSATION WEEKS CLAIMED AS A PRECENT OF TOTAL UNEMPLOYMENT FOR REGULAR STATE PROGRAMS (1947–87) AND ALL PROGRAMS (1967–87)



Source: Chart prepared by CRS based on data from U.S. DoL.

In May 1988, Mathematica Policy Research (MPR), under contract to the U.S. Department of Labor, released a study on the decline in the proportion of unemployed receiving benefits during the 1980's. This analysis did not find a single cause for the decline, but instead found statistical evidence that the following factors contributed to the decline in UC claims (the figures in parentheses show the share of the decline attributed to each factor):

—the decline in the proportion of unemployed from manufacturing industries (4–18 percent);

—geographic shifts in composition of the unemployed among regions of the country (16 percent);

—changes in State program characteristics (22–39 percent):

  —increase in the base period earnings requirements (8–15)

  —increase in income denials for UC receipt (10)

  —other non-monetary eligibility requirements (3–11);

—changes in Federal policy: partial taxation of UC benefits (11–16 percent);

—changes in unemployment as measured by the CPS (1–12 percent).

Eligibility

States have developed diverse and complex methods for determining UC eligibility. In general there are three major factors: (1) the amount of recent employment and earnings; (2) demonstrated ability and willingness to seek and accept suitable employment; and (3) certain disqualifications related to a claimant's most recent job separation or job offer refusal.

Monetary qualifications

Table 5 shows the State monetary qualification requirements in the base year for the minimum and maximum weekly benefit amounts, and for the maximum total potential benefits. The base year is a recent 1-year period that most States (44) define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits. Most States require employment in at least 2 calendar quarters of the base year. Qualifying wages for the minimum weekly benefit amount vary from $150 in Hawaii to $3,640 in Oklahoma. For the maximum weekly benefit amount, the range is $3,349 in Indiana to $23,500 in New Hampshire. The range of qualifying wages for the maximum total potential benefits, which is the product of the maximum weekly benefit amount and the maximum potential weeks of benefits, is $4,400 in Puerto Rico to $23,500 in New Hampshire.

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1989[1]

State	Required total earnings in base year			Minimum work in base year (quarters)[3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits[2]	
Alabama	$1,032	$6,936	$11,308	2Q
Alaska	1,000	19,750	19,750	2Q
Arizona	1,500	5,419	11,310	2Q
Arkansas	1,110	10,868	16,302	2Q
California	1,200	5,533	8,630	....
Colorado	1,000	22,256	22,256	....
Connecticut	600	9,360	9,360	2Q
Delaware	720	9,430	9,430	....
District of Columbia	900	9,764	14,716	2Q
Florida	400	8,000	20,800	2Q
Georgia	1,350	8,250	17,158	2Q
Hawaii	150	7,170	7,170	2Q
Idaho	1,430	6,273	16,308	2Q
Illinois	1,600	9,893	9,893	2Q
Indiana	2,500	3,349	9,984	2Q
Iowa	900	5,003	13,572	2Q
Kansas	1,560	6,300	16,380	2Q
Kentucky	1,500	13,966	13,966	2Q
Louisiana	1,200	6,788	17,427	2Q
Maine	1,976	5,738	13,338	2Q
Maryland	900	7,344	7,344	2Q
Massachusetts	1,200	7,650	21,250	....
Michigan	3,195	10,400	18,200	2Q
Minnesota	1,250	8,255	19,812	2Q
Mississippi	1,200	5,800	11,310	2Q
Missouri	1,125	5,000	11,700	2Q
Montana	1,098	7,550	15,951	2Q
Nebraska	1,200	3,650	10,449	2Q
Nevada	600	6,900	14,352	2Q
New Hampshire	2,800	23,500	23,500	2Q
New Jersey	1,720	8,580	15,015	2Q
New Mexico	1,079	5,395	7,193	2Q
New York	1,600	7,180	7,180	2Q
North Carolina	2,052	11,856	17,784	2Q
North Dakota	2,795	11,895	15,225	2Q
Ohio	1,702	6,760	8,788	2Q
Oklahoma	3,640	7,387	9,100	2Q
Oregon	1,000	18,320	18,320	2Q

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1989 [1]—Continued

State	Required total earnings in base year: For minimum weekly benefit	Required total earnings in base year: For maximum weekly benefit	Required total earnings in base year: For maximum potential benefits [2]	Minimum work in base year (quarters) [3]
Pennsylvania	1,320	10,560	10,560	2Q
Puerto Rico	280	4,400	4,400	2Q
Rhode Island	1,600	8,000	16,800	2Q
South Carolina	900	5,733	11,466	2Q
South Dakota	1,568	7,840	10,917	2Q
Tennessee	1,508	10,360	16,120	2Q
Texas	1,258	7,770	20,222	2Q
Utah	1,500	8,112	20,029	2Q
Virgin Islands	1,287	6,240	12,480	2Q
Vermont	1,400	7,605	7,605	2Q
Virginia	2,800	8,800	17,600	2Q
Washington	1,425	10,450	18,810	....
West Virginia	2,200	21,250	21,250	2Q
Wisconsin	1,258	6,766	13,134	2Q
Wyoming	1,440	8,000	16,666	2Q

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[1] Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.

[2] Based on maximum weekly benefit amount paid for maximum number of weeks. Total potential benefits equal a worker's weekly benefit amount times this potential duration.

[3] Number of quarters of work in base year required to qualify for minimum benefits. "2Q" denotes that State directly or indirectly requires work in at least 2 quarters of the base year. States without an entry have the minimum work requirement specified as a wage amount.

Source: U.S. Department of Labor.

Since the beginning of 1988, 15 States increased and 1 decreased the required earnings in the base year to qualify for the minimum weekly benefit amount. Thirty-seven States increased and three States decreased the qualification requirement for the maximum weekly benefit amount. Thirty-seven States increased and 3 decreased their qualification requirements for maximum potential benefits.

Ability to work and availability for work

All State laws provide that a claimant must be: (1) able to work; and (2) available for work. A claimant must meet these conditions continually to receive benefits.

Only minor variations exist in State laws setting forth the requirements concerning "ability to work." A few States specify that a claimant must be mentally and physically able to work.

"Available for work" is often translated to mean being ready, willing, and able to work. In addition to registration for work at a local employment office, most State laws require that a claimant actively seek work or make a reasonable effort to obtain work. Generally, a person may not refuse an offer of or referral to "suitable work" without good cause.

"Suitable work" is generally work in a claimant's customary occupation, which meets certain health, safety, moral, and labor standards. Most State laws list certain criteria by which the "suitability" of a work offer is to be tested. The usual criteria include the degree of risk to a claimant's health, safety, and morals; the physical fitness and prior training, experience, and earnings of the person; the length of unemployment and prospects for securing local work in a customary occupation; and the distance of the available work from the claimant's residence. Generally, as the length of unemployment increases the claimant is required to accept a wider range of jobs.

In addition, Federal law requires States to deny benefits provided under the extended benefit program to any individual who fails to accept any work that is offered in writing or is listed with the State employment service, or fails to apply for any work to which he or she is referred by the State agency, if the work is within the person's capabilities, pays wages equal to the highest of the Federal or any State or local minimum wage, pays a gross weekly wage that exceeds the person's average weekly unemployment compensation benefits plus any supplemental unemployment compensation (usually private) payable to the individual, and is consistent with the State definition of "suitable" work in other respects.

States must refer extended benefits claimants to any job meeting these requirements. If the State, based on information provided by the individual, determines that the individual's prospects for obtaining work in his or her customary occupation within a reasonably short period are good, the determination of whether any work is "suitable work" is made in accordance with State law rather than the above.

There are certain circumstances under which Federal law provides that State and extended benefits may not be denied. A State may not deny benefits to an otherwise eligible individual for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant directly due to a strike, lockout, or other labor dispute; (2) if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than in those prevailing for similar work in the locality; (3) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization. Further, benefits may not be denied solely on the grounds of pregnancy. The State is prohibited from canceling wage credits or totally denying benefits except in cases of misconduct, fraud, or receipt of disqualifying income.

There are also certain conditions under which Federal law requires that benefits be denied. For example, benefits must be denied to employees of education institutions during summer (and other vacation periods) if they have a reasonable assurance of reemployment; to professional athletes between sport seasons; and to aliens not legally admitted to work in the United States.

Disqualifications

The major causes for disqualification from benefits are not being able to work or available for work, voluntary separation from work without good cause, discharge for misconduct connected with the work, refusal of suitable work without good cause, and unemployment resulting from a labor dispute. Disqualification for one of these reasons may result in a postponement of benefits for some prescribed period, a cancellation of benefit rights, or a reduction of benefits otherwise payable.

Of the 14.6 million "monetarily eligible" initial UC claims in fiscal year 1988, 23.5 percent were disqualified. This figure subdivides into 5.9 percent for not being able to work or available for work, 6.3 percent for voluntarily leaving a job without good cause, 3.8 percent for being fired for misconduct on the job, 0.3 percent for refusing suitable work, and 7.2 percent for committing other disqualifying acts. The total disqualification rate ranged from a low of 7.4 percent in Tennessee to a high of 105.9 percent in Nebraska with Colorado the next highest at 62.6 percent. (Note that a claimant can be disqualified for any week claimed so that it is possible for a claimant to be disqualified more times than the total number of his initial claims in his benefit year.)

Federal law requires that benefits provided under the extended benefits program will be denied to an individual for the entire spell of his or her unemployment if he or she was disqualified from receiving State benefits because of voluntarily leaving employment, discharge for misconduct, or refusal of suitable work. These benefits will be denied even though the disqualification was subsequently lifted with respect to the State benefits prior to reemployment. The person could receive these benefits, however, if the disqualification is lifted because he or she became reemployed and met the work or wage requirement of State law.

Ex-service members

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established new requirements for the payment of benefits to ex-service members under the unemployment compensation for ex-service members (UCX) program. Under the act, benefits were limited to individuals who (1) had 365 or more days of military service; (2) were discharged or released under honorable conditions; (3) did not resign or voluntarily leave the service (i.e., they were not eligible for reenlistment); and (4) were not released or discharged "for cause" as defined by the Department of Defense. The requirements applied to individuals who left Federal military service on or after July 1, 1981, but only for weeks of unemployment that began on or after August 13, 1981, the date of enactment of Public Law 97-35.

The Miscellaneous Revenue Act of 1982 (Public Law 97-362) modified the above eligibility requirements for ex-service members. Federal unemployment benefits are now payable to unemployed ex-service members who: (1) are separated under honorable conditions (and, in the case of officers, did not resign for the good of the service); and (2) have completed the first full term of active service they agreed to serve. Ex-service members who are separated prior to completing their first full term of active service can qualify for unemployment compensation benefits if they are separated under honorable conditions: (a) for the convenience of the Government under an early release program; (b) because of medical disqualification, pregnancy, parenthood, or any service-incurred injury or disability; (c) because of hardship; or (d) if they have served for 365 continuous days, because of personality disorder or inaptitude. In addition to these eligibility requirements, ex-service members must wait 4 weeks from the date of their separation from the service before they may receive benefits. The maximum number of weeks of benefits an ex-service member may receive based on his employment in the military is 13. These eligibility provisions are effective for separations from the service on or after July 1, 1981, but only for weeks of unemployment beginning on or after October 25, 1982.

Pension offset

The Unemployment Compensation Amendments of 1976 (Public Law 94-566) required all States to reduce an individual's unemployment compensation benefits by the amount of any governmental or private pension or retirement pay received by the individual. Public Law 96-364 modified this offset requirement.

Under current law, States are required to make the offset only in those cases in which the work-related pension was maintained or contributed to by a "base period" or "chargeable" employer. Entitlement to, and the amount and duration of, unemployment benefits are based on work performed during this State-specified base period. A "chargeable" employer is one whose account will be charged for unemployment compensation received by the individual.

States are allowed to reduce the amount of the offset by an amount consistent with any contribution the employee made toward the pension. For example, this allows States to limit the offset to one-half of the amount of a social security pension received by an individual who qualifies for unemployment benefits.

Taxation of unemployment insurance benefits

The Tax Reform Act of 1986 (Public Law 99-514) made all unemployment compensation taxable after December 31, 1986. The Revenue Act of 1978 first made a portion of unemployment compensation benefits taxable beginning January 1, 1979. Generally, the amount of unemployment insurance benefits subject to Federal tax was an amount equal to the lower of the amount of unemployment compensation or one-half the excess of adjusted gross income, unemployment insurance payments, and excludable disability income over $20,000 for single taxpayers and over $25,000 for married taxpayers filing jointly. Beginning January 1, 1983, these amounts were changed to $12,000 for single taxpayers and $18,000 for married taxpayers filing jointly.

Table 6 illustrates the effect of taxing all unemployment compensation benefits for calendar year 1989. This table understates the impact of taxation because total unemployment compensation benefits on the current population survey (CPS) are equal to only about two-thirds of total benefits paid out.

TABLE 6.—EFFECT OF TAXING UNEMPLOYMENT COMPENSATION BENEFITS, BY INCOME CLASS, 1989

Level of individual or couple income [1]	Number of recipients of unemployment compensation (in thousands)	Number affected by taxation of benefits (in thousands)	Total amount of unemployment compensation benefits (in billions of dollars)	Total amount of taxes on benefits (in billion of dollars)	Taxes as a percent of total benefits [3]
Less than $10,000	1,604	588	2.2	.1	4.4
$10,000 to $15,000	1,040	935	1.5	.2	11.9
$15,000 to $20,000	938	906	1.3	.2	16.2
$20,000 to $25,000	798	776	1.2	.2	15.7
$25,000 to $30,000	767	764	1.1	.2	16.6
$30,000 to $40,000	1,062	1,062	1.5	.2	16.5
$40,000 to $50,000	579	579	.9	.2	19.2
$50,000 to $100,000	595	595	.9	.3	27.7
At least $100,000	37	37	.1	(2)	30.1
All	7,421	6,242	10.8	1.6	14.5

[1] Cash income (based on income of tax filing unit) plus capital gains realizations.

[2] Less than $50 million.

[3] Figures shown were calculated from the data used in the prior two columns before those data were rounded.

Note: Aggregate unemployment compensation benefits on the CPS are equal to only about two-thirds of total benefits paid out. The number of recipients is also understated on the CPS.

Source: Congressional Budget Office, based on data from the Current Population Survey (CPS).

Amount and duration of weekly benefits

In general, the States set weekly benefit amounts as a fraction of the individual's average weekly wage up to some State-determined maximum. The total maximum duration available under current law is 39 weeks. The permanent, regular State programs usually provide up to 26 weeks. (Only Puerto Rico provides fewer weeks, providing a maximum of 20 weeks of benefits.) The permanent Federal-State extended benefits program provides up to 13 additional weeks in States where unemployment rates are relatively high.

The State-determined weekly benefit amounts generally replace between 50 and 70 percent of the individual's average weekly pretax wage up to some State-determined maximum. The average weekly wage is often calculated only from the calendar quarter in the base year in which the claimant's wages were highest. The State-determined maximum weekly benefit amounts generally vary between 50 and 70 percent of the average weekly covered wage in each State. Individual wage replacement rates tend to vary inversely with the claimant's average weekly pretax wage with high wage earners receiving lower wage replacement rates. Partly as a result, the national average weekly benefit amount as a percent of the average weekly covered wage was only 36 percent in fiscal year 1986.

Table 7 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In fiscal year 1988, the national average weekly benefit amount was $140 and the average duration was 13.3 weeks, making the average total benefits $1,862. The minimum weekly benefit amounts for 1989 vary from $5 in Hawaii to $62 in Alaska. The maximum weekly benefit amounts range from $96 in Indiana to $382 in Massachusetts. Most States vary the duration of benefits with the amount of earnings the claimant has in his base year. Ten States provide the same duration, however, for all claimants. The minimum durations range from 1 week in Wisconsin to 26 weeks in 9 States. The maximum duration is 26 weeks in 50 States. Only Puerto Rico has a maximum duration of fewer than 26 weeks at 20 weeks and 2 States have maximum durations higher than 26 weeks up to 30 weeks in Massachusetts and Washington.

Since the beginning of 1988, 16 States increased and 2 States decreased their minimum weekly benefit amounts. Thirty-eight States raised and 1 State decreased their maximum weekly benefit amounts. Also, two States lowered their minimum potential duration and four States increased it.

TABLE 7.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS

State	1989 weekly benefit amount [1]		1988 average weekly benefit	1989 potential duration (weeks)		1988 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Alabama	$22	$145	$101	15	26	10
Alaska	38–62	188–260	157	16	26	16
Arizona	40	145	121	12	26	18
Arkansas	37	209	125	10	26	12
California	30	166	122	12	26	15
Colorado	25	214	158	13	26	13
Connecticut	15–22	234–284	176	26	26	11
Delaware	20	205	165	18	26	12
District of Columbia	13	283	186	26	26	18
Florida	10	200	137	10	26	13
Georgia	37	165	127	9	26	9
Hawaii	5	239	166	26	26	14
Idaho	44	193	136	10	26	12
Illinois	51	187–244	151	26	26	17
Indiana	40	96–161	104	9	26	11
Iowa	26–31	174–214	148	11	26	12
Kansas	52	210	162	10	26	13
Kentucky	22	166	113	15	26	13
Louisiana	10	181	131	8	26	16
Maine	29–43	171–256	139	15	26	11
Maryland	25–33	205	157	26	26	13
Massachusetts	14–21	255–382	177	10	30	15
Michigan	59	263	182	15	26	21
Minnesota	38	254	181	10	26	15

TABLE 7.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS—Continued

State	1989 weekly benefit amount [1]		1988 average weekly benefit	1989 potential duration (weeks)		1988 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Mississippi	30	145	100	13	26	12
Missouri	33	150	118	11	26	13
Montana	46	185	130	8	26	14
Nebraska	20	134	117	20	26	12
Nevada	16	184	145	12	26	13
New Hampshire	39	156	125	26	26	5
New Jersey	51	258	177	15	26	15
New Mexico	33	166	122	19	26	16
New York	40	180	143	26	26	17
North Carolina	19	228	131	13	26	8
North Dakota	43	183	133	12	26	13
Ohio	42	169–268	152	20	26	14
Oklahoma	16	197	142	20	26	13
Oregon	53	229	146	6	26	14
Pennsylvania	35–40	266–274	163	16	26	15
Puerto Rico	7	110	77	20	20	17
Rhode Island	48–58	240–300	163	12	26	12
South Carolina	20	147	109	15	26	9
South Dakota	28	140	121	18	26	12
Tennessee	30	155	104	12	26	11
Texas	34	210	159	13	26	15
Utah	14	208	157	10	26	13
Vermont	31	169	132	26	26	12
Virginia	56	176	133	12	26	9
Virgin Islands	30	160	116	14	26	11
Washington	57	209	151	16	30	15
West Virginia	24	225	142	26	26	15
Wisconsin	38	200	148	1	26	12
Wyoming	36	200	159	12	26	16

[1] A range of amounts is shown for those States that provide dependents allowances.

NA—Not available.

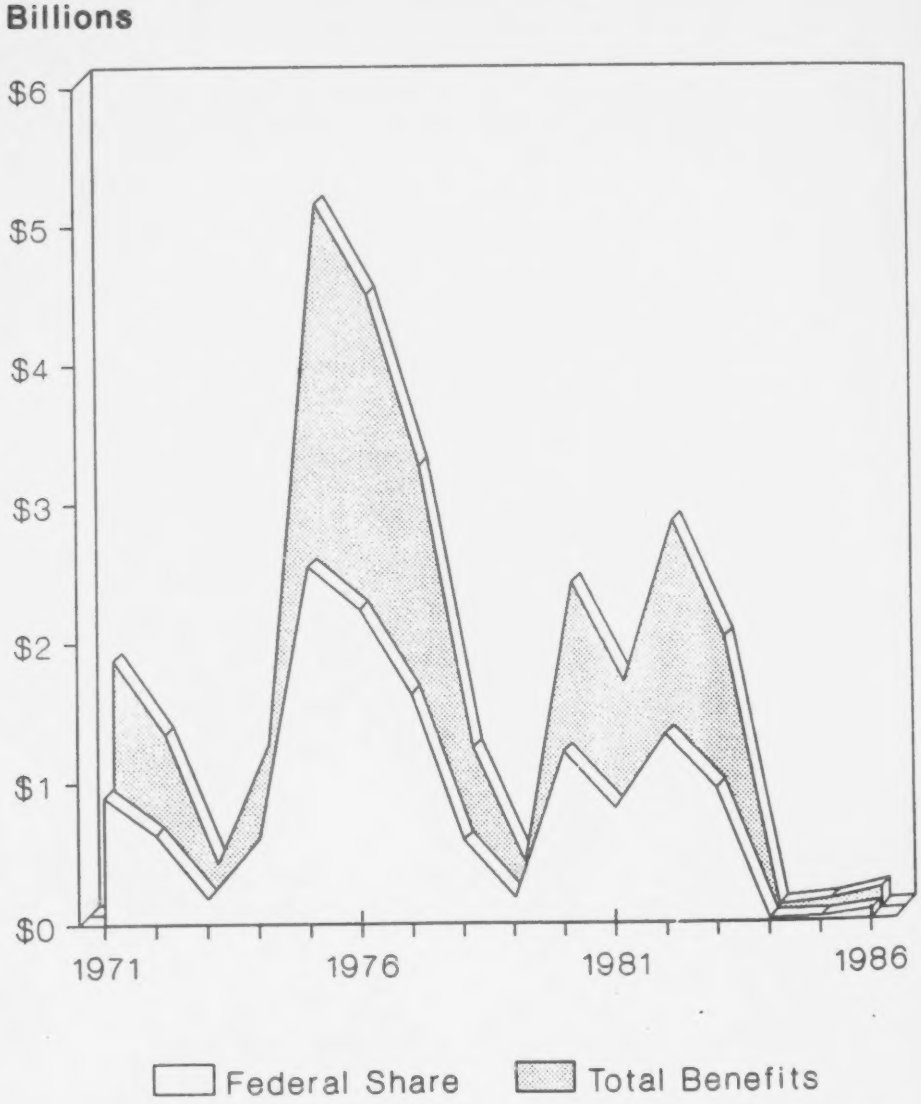
Source: U.S. Department of Labor.

EXTENDED BENEFITS

The Federal-State extended benefits program provides one-half of a claimant's total State benefits up to 13 weeks in States with an activated program for a combined maximum of 39 weeks of regular and extended benefits. Weekly benefit amounts are identical to the regular State UC benefits for each claimant, and Federal funds pay half their cost. The program activates in a State under two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent 13 weeks is at least 120 percent of the average of its 13-week IUR's in the last 2 years for the same 13-week calendar period and its current 13-week average IUR is at least 5.0 percent; or (2) at State option, if its current 13-week average IUR is at least 6.0 percent. Only 13 State programs have not adopted the second, optional condition. The 13-week average IUR is calculated from the ratio of the average number of insured unemployed persons under the regular State programs in the last 13 weeks to the average covered employment in the first 4 of the last 6 completed calendar quarters. Table 8 shows the 13-week IUR's by State for the first week in January 1984, 1985, 1986, 1987, 1988, and 1989. As indicated in the last column, no State had an activated EB program in the first week of January 1989.

Chart 2 graphs expenditures for EB in constant dollars from 1971 to 1986. The program's real spending declined significantly during the 1981–82 recession relative to spending in the 1973–75 recession, despite the considerably higher unemployment rate during the 1981–82 recession.

CHART 2.—FEDERAL-STATE EXTENDED BENEFITS IN BILLIONS OF CONSTANT 1986 DOLLARS, 1971–86



Source: Chart prepared by CRS based on data from DoL.

TABLE 8.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1984 THROUGH 1989 AND EB BENEFIT WEEKS FOR JANUARY 1989

	13-week insured unemployment rate						1989 as percent of prior 2 years	EB weeks
	1984	1985	1986	1987	1988	1989		
Alabama	3.79	3.69	3.16	3.25	2.23	2.27	82	0
Alaska	6.10	6.18	6.81	7.45	5.89	5.26	78	0
Arizona	2.19	1.54	1.61	1.86	1.59	NA	NA	0
Arkansas	3.75	3.93	3.82	3.99	3.29	3.17	85	0
California	3.86	3.36	3.49	3.25	2.61	2.61	89	0
Colorado	2.60	1.91	2.12	2.52	1.98	1.68	71	0
Connecticut	2.06	1.54	1.61	1.40	1.04	1.30	106	0
Delaware	2.01	1.49	1.26	1.20	.76	1.10	105	0
Dist. of Columbia	2.55	2.09	1.99	1.97	1.69	1.59	86	0
Florida	1.48	1.32	1.35	1.23	1.00	1.03	92	0
Georgia	1.91	1.84	1.65	1.71	1.27	1.38	87	0
Hawaii	3.13	3.26	2.21	1.86	1.54	1.27	74	0
Idaho	4.64	3.92	4.27	4.33	3.33	3.14	81	0
Illinois	3.61	2.94	2.94	2.66	2.15	1.89	78	0
Indiana	2.63	2.46	2.08	2.06	1.36	1.10	64	0
Iowa	2.63	2.74	2.91	2.82	1.69	1.57	69	0
Kansas	2.47	2.21	2.49	2.51	2.00	1.94	86	0
Kentucky	3.59	3.12	3.19	2.68	2.02	1.98	80	0
Louisiana	4.22	3.89	4.42	5.32	3.13	2.58	59	0
Maine	3.78	3.41	2.95	2.20	1.67	1.66	86	0
Maryland	2.69	2.10	2.09	1.76	1.40	1.30	82	0
Massachusetts	2.48	2.14	2.28	1.95	1.55	1.88	98	0
Michigan	3.39	3.37	2.90	3.12	3.17	2.60	82	0
Minnesota	2.56	2.29	2.61	2.21	1.87	1.77	86	0
Mississippi	3.63	3.69	3.27	3.85	2.48	2.55	80	0
Missouri	2.84	2.36	2.33	2.49	2.07	2.01	88	0
Montana	4.26	3.86	3.73	3.44	2.79	2.62	84	0
Nebraska	2.20	1.84	2.39	1.90	1.37	1.14	69	0
Nevada	3.27	2.81	2.88	2.56	2.08	1.83	78	0
New Hampshire	1.45	1.06	.86	.71	.42	.55	98	0
New Jersey	3.11	2.79	2.53	2.09	1.74	1.85	95	0
New Mexico	3.22	2.75	2.64	3.31	2.30	2.06	73	0
New York	3.08	2.70	2.52	2.28	1.92	1.88	85	0
North Carolina	2.21	2.48	2.02	1.74	1.20	1.39	94	0
North Dakota	2.67	2.65	2.84	2.70	2.15	1.91	73	0
Ohio	3.21	3.06	2.95	2.65	2.11	1.79	75	0
Oklahoma	2.09	2.14	2.36	2.90	1.87	1.57	65	0
Oregon	4.81	4.31	4.51	3.97	3.17	2.78	75	0
Pennsylvania	4.73	4.04	3.80	3.29	2.38	2.37	83	0
Puerto Rico	6.63	6.53	6.69	5.46	4.64	4.18	85	0

TABLE 8.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1984 THROUGH 1989 AND EB BENEFIT WEEKS FOR JANUARY 1989—Continued

	13-week insured unemployment rate						1989 as percent of prior 2 years	EB weeks
	1984	1985	1986	1987	1988	1989		
Rhode Island	3.53	3.17	2.99	2.55	2.04	2.43	106	0
South Carolina	2.58	2.98	2.59	2.10	1.50	1.69	93	0
South Dakota	1.10	1.23	1.54	1.18	1.20	.95	77	0
Tennessee	2.79	2.76	2.61	2.34	1.95	2.07	96	0
Texas	1.88	1.50	1.72	2.78	1.91	1.73	73	0
Utah	2.75	2.54	2.27	2.39	1.62	1.45	72	0
Vermont	3.38	2.86	2.66	2.05	1.40	1.59	90	0
Virgin Islands	1.23	1.26	2.70	1.50	.78	1.33	119	0
Virginia	3.67	3.71	1.06	.94	.75	.86	100	0
Washington	5.03	4.41	4.30	3.92	3.45	3.26	88	0
West Virginia	5.55	5.66	4.19	3.79	2.78	2.54	73	0
Wisconsin	3.93	3.34	3.34	2.91	2.24	2.09	81	0
Wyoming	3.10	1.68	2.48	3.98	2.28	2.10	67	0

NA—Not available.

Source: U.S. Department of Labor.

HYPOTHETICAL WEEKLY BENEFIT AMOUNTS FOR VARIOUS WORKERS IN THE REGULAR STATE PROGRAMS

The following table (table 9) illustrates the amount of benefits various full-year workers can receive in regular State programs. All of the benefit amounts are for January 1989. The first column A of the table is for a full-time worker earning the minimum wage; the second column B is for a worker earning $6 per hour, while the third column C shows benefit amounts for a worker earning $9 per hour. The final column D is a part-time worker earning the minimum wage and working 20 hours per week. The weekly benefit amount for the minimum wage worker varies from $61 to $139. The maximum amount a worker can receive in these examples (column C) in each State varies considerably, from $110 to $239 per week.

TABLE 9.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1989

	A	B	C	D
Alabama	73	130	145	36
Arkansas	67	120	180	36
Alaska	84	128	226	56
Arizona	70	125	145	0
California	68	105	142	38
Colorado	80	143	180	40
Connecticut	77	130	210	43
Delaware	75	135	203	37
District of Columbia	80	140	218	42
Florida	67	120	180	33
Georgia	69	124	165	37
Hawaii	70	125	188	35
Idaho	67	120	180	0
Illinois	70	127	202	35
Indiana	75	113	147	0
Iowa	79	142	234	40
Kansas	74	132	198	52
Kentucky	83	148	166	41
Louisiana	61	109	164	30
Maine	84	146	186	44
Maryland	73	130	205	37
Massachusetts	67	120	230	34
Michigan	NA	NA	NA	NA
Minnesota	67	120	180	0
Mississippi	67	120	145	33
Missouri	78	140	150	39
Montana	65	117	176	45
Nebraska	72	128	128	38
Nevada	69	124	184	34
New Hampshire	83	120	141	0
New Jersey	85	154	239	0
New Mexico	67	120	166	33
New York	67	120	180	0
North Carolina	67	120	180	33
North Dakota	67	120	180	0
Ohio	67	120	180	0
Oklahoma	70	124	187	0
Oregon	87	156	229	53
Pennsylvania	77	132	197	43
Puerto Rico	67	110	110	34
Rhode Island	80	144	236	0
South Carolina	67	120	147	33
South Dakota	67	120	140	33
Tennessee	112	155	155	67

TABLE 9.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1989—Continued

	A	B	C	D
Texas	70	125	188	35
Utah	68	121	182	34
Virgin Islands	70	125	160	35
Vermont	77	138	169	0
Virginia	69	124	176	0
Washington	139	209	209	69
West Virginia	73	131	198	36
Wisconsin	67	120	180	0
Wyoming	69	124	187	0

A. $3.35/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
B. $6.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
C. $9.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; 2 children.
D. $3.35/hr. wage; 20 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.

NA—Means not available.

Source: U.S. Department of Labor.

FINANCING

The Federal unemployment tax

Total unemployment taxes on employers for a full-time, full-year worker earning at least $7,000 in 1987 is estimated to have averaged about $231 or 11 cents per hour. The Federal portion is $56 or 3 cents per hour and the average State portion is about $175 or 8 cents per hour. Employer taxes will vary substantially, however, depending on the State taxable wage base, State tax rates, and reduced Federal credits.

The Federal Unemployment Tax Act (FUTA) currently imposes a minimum, net Federal payroll tax on employers of 0.8 percent on the first $7,000 paid annually to each employee. The gross FUTA tax rate is 6.2 percent, but employers in States meeting certain Federal requirements and having no delinquent Federal loans are eligible for a 5.4 percent credit, making the minimum, net Federal tax rate 0.8 percent.

Employers in States with delinquent Federal loans may face increases in their FUTA tax rate stemming from automatic reductions in the FUTA credit. States with outstanding loans from the Federal Government must repay them fully by November 10 of the calendar year in which the second consecutive January first passes with the State still having an outstanding loan. This means that a State may have from about 22 to 34 months to repay the loan without penalty, depending on when it obtained the outstanding loan. If it does not repay fully by the appropriate November 10, it becomes subject to an annual credit reduction beginning with the preceding January 1 until the State repays the loan fully. Employers must pay the additional taxes resulting from the credit reduction no later than January 31 of the next calendar year.

The credit reduction is at least 0.3 percent per year beginning with the calendar year in which the second consecutive January first passes during which the loan is outstanding. There are two potential additional credit reductions during the ensuing calendar years in which a State has an outstanding advance: (1) in the calendar years after which the third and fourth consecutive January firsts pass, the employers in the State face a reduction by the amount (adjusted for the State's taxable wage base and average wage) by which 2.7 percent exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies; (2) in the calendar years in which the fifth through ninth consecutive January firsts pass, the employers face a reduction equal to the higher of the amount in (1) or the amount that the State's 5-year benefit cost rate exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies. The 5-year benefit-cost rate is one-fifth of the UC benefits paid in the first 5 of the last 6 completed calendar years preceding the calendar year to which the credit reduction applies divided by taxable wages in the last calendar year.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) modified FUTA provisions regarding Federal unemployment loans to the States. States are now charged interest on new loans that are not repaid by the end of the fiscal year in which they are obtained. Under previous law, States could receive these loans interest-free. The interest rate is the same rate as that paid by the Federal Government on State reserves in the Federal Unemployment Trust Fund for the quarter ending December 31 of the preceding year, but not higher than 10 percent per annum. States may not pay the interest directly or indirectly from funds in their State accounts in the Federal Unemployment Trust Fund.

Employers in Pennsylvania were subjected to a reduction in the FUTA offset credit of 1.5 percentage points for taxable year 1987.

The Omnibus Budget Reconciliation Act of 1981 added a new subsection (f) to section 3302 of FUTA, which under certain conditions fully limits the FUTA tax credit reduction to an amount that does not exceed the greater of 0.6 percent of wages subject to FUTA or the percentage reduction that was in effect for the preceding taxable year.

To qualify for a full cap in taxable year 1986, a State must have taken no action in the 12 months ending September 30, 1986, unless required under State law in effect before August 13, 1981, which has resulted or will result in:

(1) A reduction in the State's unemployment tax effort;

(2) A net decrease in the solvency of the State unemployment compensation system;

and, further, that:

(3) The State unemployment tax rate for the calendar year equals or exceeds the average benefit-cost ratio for calendar years in the five-calendar-year period ending with calendar year 1985; and

(4) The outstanding balance of advances to the State on September 30 of calendar year 1986 was not greater than the outstanding balance for such State on September 30, 1983.

Under these criteria, Michigan qualified for the full cap.

Section 272 of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) amended Section 3302 of the Internal Revenue Code of 1954 by adding subsection (g) which gives a State the option of repaying on or before November 9 a portion of its outstanding loans each year through transfer of a specified amount from its account in the Unemployment Trust Fund (UTF) to the Federal Unemployment Account (FUA) in the UTF. The transfer to FUA would be in lieu of a reduced credit in the Federal tax paid by the employers in the State. The State must meet the following criteria in order to avoid the offset credit reduction:

(1) repay all loans for the one-year period ending on November 9, plus the additional tax due by reason of the reduced credit applicable to that tax year;

(2) have or will have sufficient funds remaining after the transfer to pay benefits for at least three months from November 1 of the same year without receiving another title XII advance; and

(3) have taken action by amendment of the State law, after the date of the first advance taken into account, to increase the net solvency of its UI system, and such net increase equals or exceeds the potential additional taxes for such taxable year.

Under these criteria, Michigan qualified and thus, was not subject to a reduced FUTA credit for 1988.

As of December 31, 1988, outstanding unemployment loans totaled $782 million. Michigan was the only State with an outstanding loan balance on interest-free loans first taken in April 1975. No interest-bearing loans to States were outstanding.

The State unemployment taxes

The States finance their programs and half of the Extended Benefits program with employer payroll taxes imposed on at least the first $7,000 paid annually to each employee.[1] States generally adopt a taxable wage base at least as high as the Federal level because they would otherwise lose the 5.4 percent credit to employers on the difference between the Federal taxable wage base and State taxable wage base. Table 10 shows that as of January 1989, 35 States had taxable wage bases higher than the Federal taxable wage base, ranging up to $20,900 in Alaska.

Although the standard State tax rate is 5.4 percent, State tax rates based on unemployment experience can range from zero on some employers in 14 States up to a maximum as high as 10 percent in 3 States.

Estimated national average State tax rates on taxable wages and total wages for 1988 were 2.4 and 1.0 percent, respectively. Estimated average State tax rates on taxable wages ranged from 0.7 percent in New Hampshire to 5.4 percent in Puerto Rico. Estimated average State tax rates on total wages varied from 0.3 percent in New Hampshire to 3.0 percent in Alaska.

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[1] Alabama, Alaska, New Jersey, Pennsylvania and West Virginia also tax employees.

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES

State	1989 tax base	1989 experience rates[1]		Estimated 1988 average tax rates as a percent of—	
		Minimum	Maximum	Taxable wages	All wages
U.S. average	(2)	NA	NA	2.4	1.0
Alabama	$8,000	.5	5.4	1.6	0.7
Alaska	20,900	1.0	6.5	4.4	3.0
Arizona	(2)	.1	5.4	1.4	.6
Arkansas	7,500	0	6.0	2.5	1.2
California	(2)	.3	5.4	2.3	.8
Colorado	10,000	0	5.4	2.1	.9
Connecticut	7,100	.5	6.4	1.9	.6
Delaware	8,500	.1	8.0	2.7	1.0
District of Columbia	8,000	.1	5.4	2.0	.6
Florida	(2)	.1	5.4	.9	.4
Georgia	7,500	.01	8.64	1.5	.6
Hawaii	18,600	0	5.4	1.2	.6
Idaho	16,800	.1	6.8	3.0	2.0
Illinois	9,000	.2	6.7	3.2	1.2
Indiana	(2)	.02	5.4	1.4	.5
Iowa	11,500	0	9.0	2.9	1.5
Kansas	8,000	.025	5.4	2.5	1.1
Kentucky	8,000	.3	10.0	2.6	1.1
Louisiana	8,500	.3	6.0	3.7	1.7
Maine	(2)	.5	6.5	2.5	1.0
Maryland	(2)	.1	6.0	1.5	.4
Massachusetts	(2)	1.2	7.2	2.1	.7
Michigan	9,500	0	10.0	4.2	1.6
Minnesota	12,200	.1	8.5	2.4	1.2
Mississippi	(2)	.1	6.4	1.2	.5
Missouri	(2)	0	7.8	1.7	.7
Montana	12,800	0	6.4	1.9	1.4
Nebraska	(2)	.1	5.4	1.5	.5
Nevada	12,600	.3	5.4	1.5	.9
New Hampshire	(2)	.01	6.5	.7	.3
New Jersey	12,800	.3	7.0	2.1	1.0
New Mexico	11,100	.1	5.4	1.8	1.0
New York	(2)	0	6.4	2.8	.8
North Carolina	10,700	.1	5.7	.9	.5
North Dakota	11,200	.1	5.4	3.1	1.8
Ohio	8,000	0	7.3	3.4	1.3
Oklahoma	9,200	.1	6.2	2.7	1.1

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES—Continued

State	1989 tax base	1989 experience rates[1]		Estimated 1988 average tax rates as a percent of—	
		Minimum	Maximum	Taxable wages	All wages
Oregon	15,000	.9	5.4	3.0	1.9
Pennsylvania	8,000	.3	9.2	4.2	1.6
Puerto Rico	(2)	(3)	(3)	5.4	2.9
Rhode Island	12,800	.8	8.4	3.0	1.7
South Carolina	(2)	.19	5.4	1.9	.8
South Dakota	(2)	0	9.5	.8	.4
Tennessee	(2)	.15	10.0	1.6	.6
Texas	9,000	0	6.0	3.7	1.3
Utah	13,600	.1	8.0	1.5	.9
Vermont	8,000	.4	8.4	3.3	1.5
Virginia	(2)	0	6.2	1.1	.4
Virgin Islands	16,500	.1	9.0	2.5	1.9
Washington	15,600	.48	5.4	3.8	2.2
West Virginia	8,000	0	7.5	4.1	1.7
Wisconsin	10,500	.27	8.9	3.6	1.7
Wyoming	10,400	0	8.5	3.3	1.8

[1] Actual rates could be higher if State has an additional tax.

[2] The 1989 tax base is $7,000 except as otherwise shown in this column.

[3] Puerto Rico is not experience rated. The rate in Puerto Rico is 5.4% of $7,000.

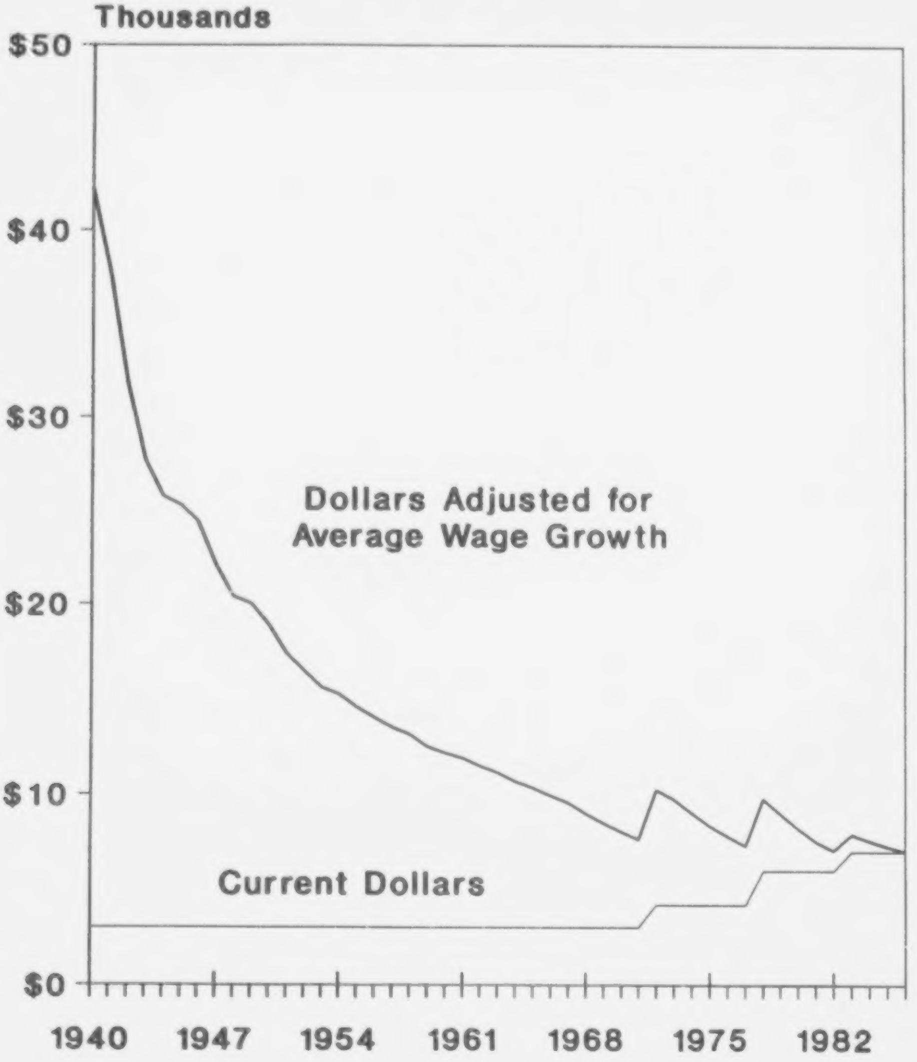
NA—Means not available.

Note: This table shows the State unemployment tax levels. It does not include the Federal unemployment taxes.

Source: Department of Labor (based on estimates by State agencies).

Chart 3 shows the historical trend in the Federal taxable wage base for 1947-86. The wage base was held constant at $3,000 until 1971 and has been increased three times since then. The chart also shows the erosion of the taxable wage base during the 1950's and 1960's relative to wage growth. If the taxable wage base had been indexed for wage growth since 1947, the current wage base would be $22,097 instead of $7,000.

CHART 3.—FEDERAL TAXABLE WAGE BASE IN CURRENT DOLLARS AND DOLLARS ADJUSTED FOR AVERAGE WAGE GROWTH, 1940–86



Source: Chart prepared by CRS based on data from DoL.

Table 11 shows recent data on unemployment compensation covered employment, wages, taxable wages, the ratio of taxable to total wages, and average weekly wages. The ratio of taxable wages to total wages in the States varied from 0.24 in New York to 0.67 in Montana.

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT COMPENSATION (UC) FOR PERIOD ENDING MARCH 1988

State	Average employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages
United States	99,562	$2,074,584	$690,600	0.33	$401
Alabama	1,426	25,643	9,515	.37	346
Alaska	187	5,223	2,525	.48	537
Arizona	1,355	26,484	8,705	.33	376
Arkansas	805	13,224	5,149	.39	316
California	11,850	275,026	78,505	.29	446
Colorado	1,347	28,057	10,310	.37	401
Connecticut	1,617	40,121	10,913	.27	477
Delaware	314	6,597	2,190	.33	404
District of Columbia	430	11,360	2,904	.26	508
Florida	4,805	89,497	31,312	.35	358
Georgia	2,670	52,505	18,143	.35	378
Hawaii	438	8,233	4,424	.54	362
Idaho	321	5,409	2,992	.55	324
Illinois	4,792	107,502	34,400	.32	431
Indiana	2,212	43,715	13,533	.31	380
Iowa	1,057	18,267	8,323	.46	332
Kansas	958	17,636	7,820	.44	354
Kentucky	1,248	22,455	8,031	.36	346
Louisiana	1,408	26,265	8,468	.32	359
Maine	481	8,375	2,963	.35	335
Maryland	1,883	39,670	11,753	.30	405
Massachusetts	2,955	67,685	21,538	.32	440
Michigan	3,564	82,848	26,986	.33	447
Minnesota	1,891	38,970	15,020	.39	396
Mississippi	822	12,963	4,860	.37	303
Missouri	2,087	40,770	12,761	.31	376
Montana	252	4,052	2,703	.67	309
Nebraska	635	10,469	3,388	.32	317
Nevada	496	9,662	4,951	.51	375
New Hampshire	498	9,835	3,312	.34	379
New Jersey	3,451	83,613	32,429	.39	466
New Mexico	483	8,446	3,591	.43	336
New York	7,823	196,340	47,553	.24	483
North Carolina	2,806	50,392	22,089	.44	345
North Dakota	224	3,578	1,451	.41	307
Ohio	4,398	90,695	28,715	.32	397

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT COMPENSATION (UC) FOR PERIOD ENDING MARCH 1988—Continued

State	Average employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages
Oklahoma	1,039	19,058	7,518	.39	353
Oregon	1,058	19,922	9,820	.49	362
Pennsylvania	4,685	96,256	30,664	.32	395
Puerto Rico	774	8,904	3,580	.40	221
Rhode Island	439	8,377	3,665	.44	367
South Carolina	1,333	22,982	8,204	.36	332
South Dakota	234	3,428	1,209	.35	281
Tennessee	1,935	35,442	12,089	.34	352
Texas	6,241	127,444	40,858	.32	393
Utah	576	10,362	4,802	.46	346
Vermont	236	4,203	1,557	.37	342
Virginia	2,477	48,689	15,815	.32	378
Virgin Islands	40	662	315	.48	321
Washington	1,766	35,407	16,362	.46	386
West Virginia	558	10,492	3,461	.33	362
Wisconsin	2,008	38,190	15,252	.40	366
Wyoming	171	3,183	1,205	.38	358

ADMINISTRATIVE FINANCING AND ALLOCATION

State unemployment insurance administrative expenses are Federally financed. A portion of revenue from the Federal unemployment tax (FUTA) is designated for administration and to maintain a system of public employment offices.

FUTA revenue flows into three Federal accounts in the Unemployment Trust Fund: (1) the Employment Security Administration Account (ESAA), (2) the Extended Unemployment Compensation Account (EUCA), and (3) the Federal Unemployment Account (FUA). Authorized by title IX of the Social Security Act, ESAA finances administrative costs associated with Federal and State unemployment compensation and employment services.

Under current law, 65 percent of FUTA revenue is allocated to ESAA, 22.5 percent to EUCA, and 12.5 percent to FUA. Funds for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the Federal Unemployment tax. Funds for administration may be augmented by three-eighths of the amount in ESAA at the beginning of the fiscal year, or $150 million, whichever is less, if the rate of insured unemployment is at least 15 percent higher than it was over the corresponding calendar quarter in the immediately preceding year.

Title III of the Social Security Act authorizes payment to each State, with an approved unemployment insurance law, such amounts as are deemed necessary for the proper and efficient administration of such law during the fiscal year. Allocations are based on (1) the population of the State, (2) an estimate of the number of persons covered by the State unemployment insurance law, (3) an estimate of the cost of proper and efficient administration of such law; and (4) such other factors as the Secretary of Labor finds relevant.

Subject to the limit of available resources, the allocation of State grants for administration is the summation of resources derived in two major areas, the Unemployment Insurance Service (UI) and the Employment Service (ES). Each area has its own allocation methodology subject to general constraints set forth in the Social Security Act and the Wagner-Peyser Act.

Each year, as part of the development of the President's Budget, the Department of Labor in conjunction with the Department of Treasury, estimates revenue expected from FUTA and the appropriate amount which will be available for administration (and the Federal share of extended benefits). The estimate of FUTA revenues is based on several factors: (1) a wage base of $7,000 per employee, (2) a tax rate of 0.8 percent (0.52 percentage point for administration, 0.18 percentage point for extended benefits, and 0.1 percentage point for the Federal loan account), (3) the administration's projection of the level of unemployment and the growth in wages, and (4) the level of covered employment subject to FUTA. Additionally, a determination is made based on the administration's forecast for unemployment as to whether the rate will increase by at least 15 percent.

Each year the President's Budget sets forth an estimate of national unemployment in terms of the volume of unemployment claims per week. This is characterized as average weekly insured unemployment (AWIU). A portion of AWIU is expressed as "base" and the remainder as "contingency." At the present time, the base is set at the level of resources required to process an average weekly volume of 1.8 million weeks of unemployment.

Resources available to each State to administer its unemployment compensation program (i.e., process claims and pay benefits) are provided from either "base" funds or "contingency" funds. At the beginning of the fiscal year, only the base funds are allocated while contingency funds are allocated on a needs basis as workload materializes. Base funds are distributed to the State for use throughout the fiscal year and are available regardless of the level of unemployment (workload) realized. If a State processes workloads in excess of the base level they receive the contingency funds determined by the extent of the resources required to process the additional workload.

The allocation of the base UI grant funds to each State is made by:

(1) Projecting the workloads that each State is expected to process.

These projections are then adjusted so that the sum across States for each workload item is equal to the budgeted base workload.

(2) Determining the staff required to process each State's projected workload.

The staff requirements are computed by multiplying the projected workloads by minutes per unit (MPU) and dividing the result by the number of work minutes per staff year for each State. The MPUs were derived from work measurement studies conducted in each State that establish the number of minutes required to perform specific tasks. The MPUs developed from the studies are necessarily reduced so that the total of computed staff years for each workload item across States equals the staff years available in the appropriation. The MPUs are reduced according to a complex mathematical formula that takes into account workload volume and the range of MPUs.

(3) Multiplying of the final staff-year allocations for each State by the cost per staff year (i.e., State salary and benefit level) to determine dollar funding levels.

(4) Overhead resources (administrative and management staff and nonpersonal services) are allocated using a methodology driven by the program staff years developed in the UI base allocation. In summary, the administrative staff allocation is calculated by multiplying program staff times a State's administrative staff historical rate. The estimates of the number of administrative staff are then multiplied by the States cost per staff year and adjusted so that the allocated sum equals that in the appropriation for administrative staff. Nonpersonal services are calculated using an historical staff year unit cost increased annually for inflation provided in the budget. The revised unit cost is multiplied by staff years to determine the allocation, which is adjusted to match budgeted dollars.

Each Department of Labor regional office may redistribute resources among the States in its area with national office approval.

RECENT MAJOR LEGISLATION

Major Federal laws passed by recent sessions of Congress and some of their provisions are:

(1) The Employment Security Amendments of 1970 (Public Law 91-373) expanded FUTA coverage primarily to small businesses, nonprofit organizations, and higher educational institutions. It also raised the taxable wage base from the original $3,000 to $4,200 in 1972; increased the minimum, net Federal unemployent tax rate from 0.4 to 0.5 percent in 1970; and created the Federal-State extended benefits program.

(2) The Unemployment Compensation Amendments of 1976 (Public Law 94-566), extended FUTA coverage primarily to State-local government workers and certain agricultural and domestic labor. It also raised the taxable wage base to $6,000 in 1978 and temporarily increased the minimum, net Federal unemployment tax rate from 0.5 to 0.7 percent in 1977.

(3) The Omnibus Budget Reconciliation Act of 1980 (Public Law 96-499) added among other provisions a denial of extended benefits to claimants under certain circumstances who have rejected a minimum wage job.

(4) The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) imposed interest charges up to 10 percent per annum under

certain conditions on loans obtained by State UC programs after April 1, 1982. It also reduced an estimated $3 to $4 billion from the extended benefits program in fiscal year 1983. The primary changes that resulted in this reduction were: (A) elimination of the national trigger under the extended benefits program; (B) raising the State trigger to 5 percent, and 120 percent, or 6 percent; and (C) excluding claims for extended compensation from the calculation of the insured unemployment rate which was used for the extended benefit trigger.

(5) The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) increased the taxable wage base from $6,000 to $7,000 and raised the minimum, net Federal unemployment tax rate to 0.8 percent in 1983. It also raised the gross tax and credit rates in 1985 to 6.2 and 5.4 percent, respectively. This leaves the minimum, net Federal rate unaffected, but raises the maximum, potential, net tax rate in States with delinquent loans from 3.4 to 6.2 percent. The Act also created the temporary Federal supplemental compensation program, which authorized 6 to 10 additional weeks of benefits through March 31, 1983. This act also rounded UC benefits to the lowest dollar, extended the Reed Act, modified the treatment of school employees, and changed the thresholds for taxation of unemployment compensation to $12,000 for single filers and $18,000 for married couples filing jointly.

(6) The Surface Transportation Assistance Act (Public Law 97-424), passed in the lame-duck session of Congress, added 2 to 6 weeks to the Federal Supplemental Compensation program for a combined maximum in that program of 8 to 16 weeks.

(7) The Social Security Amendments of 1983 (Public Law 98-21) extended the Federal supplemental compensation program through September 30, 1983, providing a maximum of 8 to 14 weeks of benefits. It also established conditions under which States could defer the payment of interest on loans from the Federal Unemployment Account and qualify for reduced FUTA credit reductions.

(8) The Federal Supplemental Compensation Amendments of 1983 (Public Law 98-135) extended the Federal Supplemental Compensation program through March 31, 1985, providing a maximum of 8 to 14 weeks of benefits.

(9) The Tax Reform Act of 1986 (Public Law 99-514) made all unemployment compensation taxable under the Federal personal income tax.

(10) The Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203) extended the 0.2 percent FUTA surtax for 3 years through 1990.

APPENDIX F. STATISTICAL DATA ON UNEMPLOYMENT, EMPLOYMENT AND EARNINGS, AND THE UNEMPLOYMENT COMPENSATION PROGRAM

The following tables and charts provide statistical data on unemployment and labor force projections, dislocated workers, historical information on the unemployment compensation program, earnings, and the changing earnings distribution of jobs. The tables in the appendix are organized as follows:

Table(s):	*Topic*
1–5	Unemployment rates and duration.
6–10	Employment and labor force projections.
11	Dislocated workers.
12–23	Historical information on the unemployment compensation program.
24	Average annual earnings by age, sex and education: 1973 and 1986.
25	Changes in the earnings distributions of jobs: 1979 and 1987.

UNEMPLOYMENT DATA

TABLE 1.—MONTHLY DATA FOR CIVILIAN UNEMPLOYMENT RATE AND INSURED UNEMPLOYMENT RATE SINCE 1970

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
Civilian Unemployment Rate—Total (Seasonally Adjusted)													
1970	3.9	4.2	4.4	4.6	4.8	4.9	5.0	5.1	5.4	5.5	5.9	6.1	4.9
1971	5.9	5.9	6.0	5.9	5.9	5.9	6.0	6.1	6.0	5.8	6.0	6.0	5.9
1972	5.8	5.7	5.8	5.7	5.7	5.7	5.6	5.6	5.5	5.6	5.3	5.2	5.6
1973	4.9	5.0	4.9	5.0	4.9	4.9	4.8	4.8	4.8	4.6	4.8	4.9	4.9
1974	5.1	5.2	5.1	5.1	5.1	5.4	5.5	5.5	5.9	6.0	6.6	7.2	5.6
1975	8.1	8.1	8.6	8.8	9.0	8.8	8.6	8.4	8.4	8.4	8.3	8.2	8.5
1976	7.9	7.7	7.6	7.7	7.4	7.6	7.8	7.8	7.6	7.7	7.8	7.8	7.7
1977	7.5	7.6	7.4	7.2	7.0	7.2	6.9	6.9	7.0	6.8	6.8	6.4	7.1
1978	6.4	6.3	6.3	6.1	6.0	5.9	6.2	5.9	6.0	5.8	5.9	6.0	6.1
1979	5.9	5.9	5.8	5.8	5.6	5.7	5.7	6.0	5.9	6.0	5.9	6.0	5.8
1980	6.3	6.3	6.3	6.9	7.5	7.6	7.8	7.7	7.5	7.5	7.5	7.2	7.1
1981	7.5	7.4	7.4	7.2	7.5	7.5	7.2	7.4	7.6	7.9	8.3	8.5	7.6
1982	8.6	8.9	9.0	9.3	9.4	9.6	9.8	9.8	10.1	10.4	10.7	10.7	9.7
1983	10.4	10.4	10.3	10.2	10.2	10.1	9.4	9.4	9.2	8.8	8.4	8.2	9.6
1984	8.0	7.8	7.8	7.8	7.5	7.2	7.5	7.5	7.4	7.3	7.1	7.2	7.5
1985	7.4	7.3	7.2	7.3	7.2	7.3	7.3	7.1	7.1	7.1	7.0	7.0	7.2
1986	6.8	7.2	7.2	7.1	7.2	7.1	7.0	6.8	7.0	6.9	6.9	6.7	7.0
1987	6.7	6.6	6.5	6.3	6.3	6.1	6.0	6.0	5.9	6.0	5.9	5.8	6.2
1988	5.8	5.7	5.6	5.4	5.6	5.3	5.4	5.6	5.4	5.3	5.4	5.3	5.5

Insured Unemployment Rate Under State Programs (Seasonally Adjusted)

1970	2.5	2.7	2.8	3.2	3.5	3.6	3.6	3.7	4.0	4.4	4.4	4.0	3.4
1971	3.9	3.9	4.0	4.1	4.1	4.1	3.9	4.2	4.3	4.2	4.1	4.0	4.1
1972	3.7	3.7	3.6	3.6	3.6	3.5	3.7	3.4	3.4	3.2	3.2	3.2	3.5
1973	2.9	2.8	2.8	2.6	2.7	2.7	2.6	2.8	2.7	2.7	2.7	2.9	2.7
1974	3.1	3.2	3.3	3.2	3.2	3.3	3.3	3.4	3.5	3.7	4.4	5.0	3.5
1975	5.6	5.8	6.4	6.7	6.9	6.8	6.1	5.9	5.8	5.6	5.3	4.9	6.0
1976	4.6	4.3	4.3	4.4	4.5	4.5	4.6	4.6	4.7	4.7	4.7	4.4	4.6
1977	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.7	3.9
1978	3.5	3.7	3.6	3.3	3.2	3.2	3.3	3.4	3.2	3.1	2.9	3.2	3.3
1979	3.1	3.2	3.1	3.0	2.8	2.8	2.8	3.0	2.9	3.0	3.1	3.2	2.9
1980	3.3	3.3	3.4	3.7	4.2	4.4	4.4	4.3	4.2	4.0	3.8	3.6	3.9
1981	3.5	3.5	3.4	3.3	3.3	3.3	3.3	3.3	3.4	3.6	3.9	4.0	3.5
1982	4.2	4.0	4.3	4.6	4.5	4.7	4.7	4.7	5.0	5.2	5.3	4.8	4.6
1983	4.5	4.7	4.5	4.4	4.2	3.9	3.7	3.5	3.4	3.3	3.3	3.2	3.9
1984	2.9	2.8	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.8	2.7	3.0	2.8
1985	2.8	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.6	2.8	2.9	2.8
1986	2.7	2.8	2.9	2.8	2.8	2.9	2.8	2.9	2.8	2.8	2.8	2.7	2.8
1987	2.6	2.6	2.6	2.5	2.4	2.4	2.4	2.3	2.2	2.1	2.1	2.2	2.4
1988	2.3	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.1

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1983–87 AND RATES BY CALENDAR QUARTER FOR 1988 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM

[Percent]

	1983	1984	1985	1986	1987	1988			
						I	II	III	IV
Alabama	4.6	3.5	3.3	3.2	2.8	2.6	1.9	2.1	2.2
Alaska	6.7	6.2	7.1	8.0	6.6	7.7	5.6	3.9	5.1
Arizona	3.2	1.9	1.8	2.0	2.0	1.9	1.8	1.3	1.1
Arkansas	4.6	3.5	3.7	3.6	3.4	4.0	2.9	2.6	3.1
California	4.7	3.4	3.6	3.5	3.0	3.0	2.7	2.5	2.5
Colorado	3.1	2.1	2.3	2.5	2.4	2.7	2.0	1.6	1.6
Connecticut	2.9	1.8	1.8	1.6	1.4	1.6	1.1	1.2	1.2
Delaware	2.6	2.0	1.6	2.0	1.2	1.9	1.2	1.4	1.0
District of Columbia	3.2	2.5	2.1	2.1	2.0	2.0	1.7	1.7	1.6
Florida	2.1	1.4	1.4	1.6	1.2	1.0	1.0	1.2	1.0
Georgia	2.5	1.8	1.8	1.8	1.6	1.6	1.2	1.4	1.3
Hawaii	3.4	2.9	2.5	2.1	1.7	1.6	1.5	1.5	1.3
Idaho	5.6	4.2	4.5	4.8	4.2	5.3	3.2	2.7	2.9
Illinois	4.8	3.1	3.2	2.9	2.6	3.0	2.1	1.8	1.8
Indiana	3.7	2.5	2.3	2.1	1.7	2.1	1.2	1.0	1.0
Iowa	3.7	2.7	3.0	2.9	2.1	2.6	1.4	1.2	1.5
Kansas	3.1	2.2	2.4	2.7	2.4	2.7	1.8	1.8	1.9
Kentucky	4.9	3.3	3.3	3.2	2.4	3.1	2.2	1.9	1.9
Louisiana	5.2	3.9	4.4	5.3	4.1	3.6	2.9	2.7	2.5
Maine	4.5	3.7	3.5	2.9	2.3	2.7	1.8	1.4	1.5
Maryland	3.5	2.3	2.2	2.1	1.7	2.0	1.3	1.2	1.3
Massachusetts	3.2	2.3	2.4	2.5	1.8	2.5	1.8	1.8	1.8
Michigan	4.7	3.4	3.2	3.4	3.5	4.8	3.0	2.8	2.5
Minnesota	3.1	2.3	2.6	2.5	2.1	3.0	1.6	1.3	1.7
Mississippi	5.0	3.7	3.7	4.0	3.2	3.2	2.5	2.5	2.5
Missouri	3.5	2.5	2.6	2.6	2.4	2.9	1.9	1.9	1.9
Montana	4.8	4.1	3.9	3.9	3.4	4.4	2.8	2.2	2.4
Nebraska	2.7	2.0	2.3	2.1	1.8	2.2	1.1	1.0	1.1
Nevada	4.0	2.9	2.8	2.8	2.4	2.4	1.8	1.6	1.8
New Hampshire	2.2	1.5	1.0	0.8	0.6	0.8	0.5	0.5	0.5
New Jersey	3.9	3.1	2.9	2.6	2.4	2.6	1.9	1.9	1.8
New Mexico	4.0	2.9	2.8	3.4	2.9	2.9	2.5	2.1	2.0
New York	3.5	3.0	2.8	2.5	2.2	2.6	2.0	1.9	1.8
North Carolina	3.1	2.2	2.3	1.9	1.6	1.9	1.2	1.2	1.3
North Dakota	3.5	3.0	3.1	2.9	2.6	3.9	1.8	1.4	1.8
Ohio	4.2	3.0	3.0	2.8	2.4	3.0	1.9	1.6	1.7
Oklahoma	3.0	2.0	2.4	3.3	2.3	2.3	1.7	1.5	1.5

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1983–87 AND RATES BY CALENDAR QUARTER FOR 1988 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM—Continued

[Percent]

	1983	1984	1985	1986	1987	1988			
						I	II	III	IV
Oregon	5.5	4.3	4.6	4.9	3.5	3.9	3.0	2.2	2.7
Pennsylvania	5.9	4.2	4.0	3.6	2.9	3.4	2.3	2.1	2.3
Puerto Rico	7.2	6.3	7.1	5.7	4.9	4.7	N/A	N/A	4.3
Rhode Island	4.7	3.5	3.6	3.1	2.7	3.5	2.2	2.4	2.2
South Carolina	3.6	2.5	2.9	2.1	1.7	1.9	1.3	1.4	1.6
South Dakota	1.7	1.2	1.6	1.4	1.3	2.1	0.9	0.7	0.9
Tennessee	3.6	2.5	2.7	2.4	2.1	2.6	1.8	1.9	1.9
Texas	2.4	1.5	1.6	2.5	2.2	2.1	1.7	1.6	1.7
Utah	4.0	2.7	2.4	2.5	2.2	2.5	1.5	1.3	1.4
Vermont	4.3	3.2	3.1	2.5	2.0	2.7	1.8	1.1	1.5
Virginia	1.8	1.2	1.2	1.0	0.9	1.3	0.8	0.8	0.8
Virgin Islands	4.6	3.9	2.7	3.2	1.1	0.7	0.9	2.0	1.4
Washington	5.6	4.4	4.4	4.1	3.7	4.4	3.4	3.1	3.2
West Virginia	7.6	4.9	4.6	4.2	3.6	4.3	3.0	2.3	2.4
Wisconsin	4.7	3.4	3.5	3.0	2.7	3.4	1.8	1.5	1.9
Wyoming	4.4	2.3	2.4	3.9	3.2	3.7	2.2	1.4	2.0
United States	3.9	2.8	2.8	2.8	2.4	2.9	1.9	1.8	1.9

Prepared by DOL/ETA/UIS. Division of Actuarial Services.

TABLE 3.—SELECTED UNEMPLOYMENT RATES

[Monthly data seasonally adjusted]

Period	Unemployment rate (percent of civilian labor force in group)											
		By sex and age			By race			By selected groups				
	Total (all civilian workers)	Men 20 years and over	Women 20 years and over	Both sexes 16–19 years	White	Black	Black and other [1]	Experienced wage and salary workers	Married men, spouse present	Women who maintain families	Full-time workers	Part-time workers
1976	7.7	5.9	7.4	19.0	7.0	14.0	13.1	7.3	4.2	10.1	7.3	10.1
1977	7.1	5.2	7.0	17.8	6.2	14.0	13.1	6.6	3.6	9.4	6.6	9.9
1978	6.1	4.3	6.0	16.4	5.2	12.8	11.9	5.6	2.8	8.5	5.6	9.0
1979	5.8	4.2	5.7	16.1	5.1	12.3	11.3	5.5	2.8	8.3	5.3	8.8
1980	7.1	5.9	6.4	17.8	6.3	14.3	13.1	6.9	4.2	9.2	6.9	8.8
1981	7.6	6.3	6.8	19.6	6.7	15.6	14.2	7.3	4.3	10.4	7.3	9.4
1982	9.7	8.8	8.3	23.2	8.6	18.9	17.3	9.3	6.5	11.7	9.6	10.5
1983	9.6	8.9	8.1	22.4	8.4	19.5	17.8	9.2	6.5	12.2	9.5	10.4
1984	7.5	6.6	6.8	18.9	6.5	15.9	14.4	7.1	4.6	10.3	7.2	9.3
1985	7.2	6.2	6.6	18.6	6.2	15.1	13.7	6.8	4.3	10.4	6.8	9.3
1986	7.0	6.1	6.2	18.3	6.0	14.5	13.1	6.6	4.4	9.8	6.6	9.1
1987	6.2	5.4	5.4	16.9	5.3	13.0	11.6	5.8	3.9	9.2	5.8	8.4
1988	5.5	4.8	4.9	15.3	4.7	11.7	10.4	5.2	3.3	8.1	5.2	7.6

[1] Category includes: American Samoans, Native Americans, Asians, and Black Hispanics.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 4.—SELECTED MEASURES OF UNEMPLOYMENT

Period	Unemployment (thousands)	Percent distribution of unemployment by duration [1]				Percent distribution of unemployment by reason [1]			
		Less than 5 weeks	5–14 weeks	15–26 weeks	27 weeks and over	Job losers	Job leavers	Reentrants	New entrants
1977	6,991	41.8	30.5	13.1	14.7	45.3	13.0	28.1	13.6
1978	6,202	46.2	31.0	12.4	10.4	41.7	14.1	29.9	14.3
1979	6,137	48.1	31.7	11.5	8.7	42.9	14.3	29.4	13.3
1980	7,637	43.1	32.3	13.8	10.7	51.7	11.7	25.2	11.4
1981	8,273	41.7	30.7	13.6	14.0	51.6	11.2	25.4	11.9
1982	10,678	36.4	31.0	16.0	16.6	58.7	7.9	22.3	11.1
1983	10,717	33.3	27.4	15.4	23.9	58.4	7.7	22.5	11.3
1984	8,539	39.2	28.7	12.9	19.1	51.8	9.6	25.6	13.0
1985	8,312	42.1	30.2	12.3	15.4	49.8	10.6	27.1	12.5
1986	8,283	41.0	32.0	12.4	14.5	47.9	13.0	25.7	13.4
1987	7,425	43.7	29.6	12.7	14.0	48.0	13.0	26.6	12.4
1988	6,695	46.0	30.0	12.0	12.1	46.1	14.7	27.0	12.2

[1] Detail may not add to 100 percent because of rounding.

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS

[In percent]

State and area	October		November	
	1987	1988	1987	1988p
Alabama	6.9	6.7	7.0	7.0
Birmingham	5.9	5.5	6.1	5.6
Huntsville	4.7	4.6	4.6	4.9
Mobile	9.3	8.4	9.1	8.8
Montgomery	6.0	5.7	6.2	6.2
Tuscaloosa	5.2	4.9	5.3	4.9
Alaska	9.2	8.4	9.8	9.0
Arizona	5.7	6.9	5.7	6.5
Phoenix	4.8	5.8	4.9	5.6
Tucson	4.7	5.7	4.9	5.5
Arkansas	6.9	6.7	7.5	6.8
Fayetteville-Springdale	3.6	4.0	3.7	4.2
Fort Smith[1]	5.5	7.2	5.9	7.4
Little Rock-North Little Rock	6.2	5.7	6.4	5.6
Pine Bluff	7.7	7.5	8.0	7.5
California[2]	5.6	4.8	5.1	5.1
Anaheim-Santa Ana	3.3	3.0	3.1	2.9
Bakersfield	10.3	10.0	10.4	10.3
Fresno	10.5	9.7	11.1	11.1
Los Angeles-Long Beach	5.9	4.3	4.5	4.4
Modesto	10.5	9.9	11.4	11.7
Oakland	4.7	4.2	4.6	4.3
Oxnard-Ventura	5.6	5.1	5.5	5.7
Riverside-San Bernardino	5.9	5.5	5.5	5.6
Sacramento	5.3	4.8	5.4	5.2
San Diego	4.6	4.0	4.4	4.1
San Francisco	3.6	3.2	3.4	3.2
San Jose	4.2	3.6	4.0	3.9
Santa Barbara-Santa Maria-Lompoc	4.2	4.0	4.7	4.1
Santa Rosa-Petaluma	4.2	4.0	4.6	4.8
Stockton	9.1	8.4	10.0	10.1
Vallejo-Fairfield-Napa	5.7	5.0	5.6	5.4
Colorado	6.6	5.8	7.3	6.3
Boulder-Longmont	4.8	4.6	5.6	4.9
Denver	6.3	5.4	6.8	5.9
Connecticut	2.9	3.0	2.9	3.0
Bridgeport-Milford	3.4	3.8	3.3	3.7
Hartford	2.5	2.8	2.8	2.9
New Haven-Meriden	2.7	3.0	2.9	2.8
Stamford	2.1	2.0	2.0	2.1
Waterbury	3.7	3.6	3.7	3.6
Delaware	2.6	2.9	2.8	3.4
Wilmington[1]	2.9	3.2	2.9	3.6
District of Columbia	5.8	4.8	5.3	4.5
Washington[1]	2.9	3.0	2.9	2.9

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	October 1987	October 1988	November 1987	November 1988p
Florida[2]	5.0	4.9	5.1	5.2
Daytona Beach	4.3	4.5	5.1	4.8
Fort Lauderdale-Hollywood-Pompano Beach	4.0	3.9	4.1	4.2
Fort Myers-Cape Coral	3.7	3.8	3.8	3.6
Jacksonville	5.0	4.9	5.2	5.5
Melbourne-Titusville-Palm Bay	4.6	4.7	5.0	4.7
Miami-Hialeah	5.5	5.3	5.5	5.6
Orlando	4.2	4.4	4.3	4.8
Pensacola	5.6	6.1	6.2	6.6
Sarasota	3.2	3.2	3.8	3.4
Tallahassee	3.7	3.3	3.8	3.9
Tampa-St. Petersburg-Clearwater	4.5	4.5	4.7	4.9
West Palm Beach-Boca Raton-Delray Beach	5.1	5.0	4.8	5.0
Georgia	5.0	5.1	5.0	5.0
Athens	3.9	3.8	3.9	4.4
Atlanta	4.4	4.6	4.3	4.5
Augusta[1]	5.3	5.5	5.2	5.1
Columbus[1]	5.5	7.0	5.7	5.8
Macon-Warner Robins	4.6	4.5	4.8	4.3
Savannah	5.5	5.7	5.5	5.3
Hawaii	3.6	3.0	3.6	3.0
Honolulu	3.3	2.7	3.1	2.6
Idaho	5.9	4.4	6.8	5.1
Boise City	4.7	3.0	5.1	3.4
Illinois[2]	6.3	6.0	6.3	6.5
Aurora-Elgin	5.0	4.5	4.8	5.1
Bloomington-Normal	3.8	4.1	4.5	5.1
Champaign-Urbana-Rantoul	3.6	3.7	3.9	4.6
Chicago	5.8	5.7	5.7	5.9
Davenport-Rock Island-Moline[1]	6.6	7.4	6.6	7.6
Decatur	9.1	9.0	8.6	8.8
Joliet	6.7	6.3	6.9	6.8
Lake County	3.8	3.7	4.0	4.1
Peoria	6.6	6.2	6.7	6.8
Rockford	8.1	6.3	7.8	6.9
Springfield	4.6	4.8	5.2	5.5
Indiana	5.4	4.7	5.7	5.4
Anderson	5.6	5.1	5.9	5.6
Bloomington	3.1	2.7	3.8	3.5
Elkhart-Goshen	4.4	4.8	5.1	4.5
Evansville[1]	6.1	5.0	6.4	5.8
Fort Wayne	4.7	4.8	5.2	5.3
Gary-Hammond	7.4	5.4	7.3	6.0
Indianapolis	4.8	4.3	5.0	5.0

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	October		November	
	1987	1988	1987	1988p
Lafayette	3.1	2.3	4.1	2.9
Muncie	6.5	4.9	6.9	5.8
South Bend-Mishawaka	5.2	4.5	5.2	5.4
Terre Haute	5.5	4.8	5.8	5.7
Iowa	4.0	3.5	4.4	3.8
Cedar Rapids	3.8	2.9	3.8	2.9
Des Moines	3.5	3.2	3.3	3.3
Dubuque	4.3	4.1	5.7	4.3
Sioux City[1]	5.0	3.7	5.2	3.9
Waterloo-Cedar Falls	5.8	4.1	6.0	4.3
Kansas	4.1	4.3	4.3	4.6
Topeka	4.3	4.7	4.4	4.8
Wichita LMA	4.2	4.5	4.3	4.7
Kentucky	7.6	6.5	7.7	6.8
Lexington-Fayette	4.3	4.1	4.8	4.3
Louisville[1]	6.0	5.2	6.0	5.5
Owensboro	8.5	6.5	8.4	6.7
Louisiana	9.8	9.5	9.7	9.6
Alexandria	8.0	8.6	8.1	9.0
Baton Rouge	8.3	8.7	8.2	8.8
Houma-Thibodaux	11.6	9.0	11.3	8.9
Lafayette	10.1	8.8	9.6	8.7
Monroe	8.5	9.2	8.6	9.2
New Orleans	8.8	8.6	8.5	8.6
Shreveport	9.2	9.4	9.2	9.4
Maine	3.0	2.3	3.4	2.9
Lewiston-Auburn	3.6	3.0	4.0	3.4
Portland	1.8	1.3	1.8	1.7
Maryland	3.8	4.6	4.0	4.4
Baltimore	4.2	5.2	4.3	4.7
Massachusetts[2]	2.7	2.8	2.3	3.5
Boston	2.3	2.5	2.0	3.0
Brockton	3.1	3.4	2.7	4.0
Fall River[1]	4.2	4.2	4.2	5.2
Fitchburg-Leominster	3.5	3.8	2.8	4.8
Lawrence-Haverhill[1]	4.1	3.9	3.4	4.5
Lowell[1]	3.1	3.3	2.6	3.9
New Bedford	3.6	3.8	3.6	4.9
Springfield	2.7	2.8	2.3	3.6
Worcester	2.4	2.4	2.0	3.1
Michigan[2]	6.9	6.6	7.4	6.8
Ann Arbor	3.5	3.5	3.5	3.2

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	October		November	
	1987	1988	1987	1988p
Battle Creek	7.2	6.5	7.8	6.1
Benton Harbor	5.8	6.4	6.3	7.0
Detroit	7.1	6.8	7.4	6.7
Flint	12.0	11.7	13.4	10.8
Grand Rapids	5.0	4.8	5.3	5.0
Kalamazoo	4.7	4.7	4.9	4.5
Lansing-East Lansing	5.6	5.0	5.7	5.5
Muskegon	8.5	8.7	8.6	8.9
Saginaw-Bay City-Midland	6.6	6.1	7.1	6.3
Minnesota	4.3	3.7	5.2	4.5
Duluth[1]	7.1	5.2	8.0	5.7
Minneapolis-St. Paul[1]	3.8	3.4	4.3	3.9
Rochester	3.7	2.6	4.6	3.7
St. Cloud	4.5	3.8	5.6	5.0
Mississippi	8.3	8.0	8.4	8.6
Jackson	5.9	5.7	5.8	6.1
Missouri	5.7	5.4	5.9	5.7
Kansas City[1]	5.1	4.9	5.0	5.1
St. Louis[1]	6.3	6.1	6.3	6.3
Springfield	4.6	4.1	4.4	4.4
Montana	5.7	5.0	6.7	6.0
Nebraska	4.0	3.2	4.5	3.6
Lincoln	3.0	3.2	3.5	2.8
Omaha[1]	4.5	3.4	4.7	3.9
Nevada	5.6	4.4	5.7	4.3
Las Vegas	6.0	4.8	6.0	4.4
Reno	4.7	3.6	5.2	4.0
New Hampshire	2.1	2.3	2.2	2.5
Nashua	2.4	3.1	2.4	3.1
Portsmouth-Dover-Rochester	1.5	1.5	1.7	1.7
New Jersey[2]	3.6	3.5	3.2	3.5
Atlantic City	5.9	5.1	5.6	6.1
Bergen-Passaic	3.1	3.1	2.7	3.0
Jersey City	5.9	5.9	5.2	5.6
Middlesex-Somerset-Hunterdon	2.6	2.5	2.3	2.5
Monmouth-Ocean	3.0	3.2	2.7	3.2
Newark	4.0	3.7	3.4	3.6
Trenton	2.9	2.7	2.6	2.7
New Mexico	7.8	7.0	8.2	6.4
Albuquerque	6.1	5.6	6.5	5.1
Las Cruces	7.2	6.8	7.1	5.7
Santa Fe	5.2	4.7	5.2	4.2

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	October 1987	October 1988	November 1987	November 1988p
New York[2]	4.9	4.2	4.9	4.3
Albany-Schenectady-Troy	4.0	3.4	3.5	3.6
Binghamton	3.9	3.5	3.6	3.8
Buffalo	5.6	4.7	5.0	5.1
Elmira	4.2	3.8	4.0	4.0
Nassau-Suffolk	3.5	3.4	3.0	3.3
New York	5.3	4.6	5.9	4.5
New York City	5.8	4.9	6.6	4.9
Orange County	3.6	3.7	3.4	4.0
Poughkeepsie	2.9	2.7	2.9	2.8
Rochester	4.3	3.5	3.9	3.9
Syracuse	6.5	4.0	5.5	4.5
Utica-Rome	5.0	4.5	4.6	5.0
North Carolina[2]	3.9	3.8	4.0	3.6
Asheville	3.7	3.4	3.9	3.1
Charlotte-Gastonia-Rock Hill[1]	3.4	3.4	3.3	3.4
Greensboro-Winston Salem-High Point	3.3	3.4	3.3	3.2
Raleigh-Durham	2.8	2.7	2.9	2.4
North Dakota	3.4	4.0	4.5	5.2
Bismarck	3.4	4.4	4.9	6.1
Fargo-Moorhead[1]	2.7	2.3	3.3	2.9
Grand Forks	2.8	3.1	3.8	3.8
Ohio[2]	5.8	5.2	5.8	5.3
Akron	5.8	5.0	5.8	5.1
Canton	6.6	5.4	6.6	5.6
Cincinnati[1]	5.5	4.5	5.2	4.6
Cleveland	5.2	4.8	5.3	4.8
Columbus	4.7	4.5	4.7	4.8
Dayton-Springfield	4.7	4.8	4.8	4.7
Toledo	6.3	5.1	5.8	5.3
Youngstown-Warren	7.1	6.0	7.2	6.3
Oklahoma	6.4	6.4	6.3	6.1
Enid	5.5	5.3	5.7	4.9
Lawton	4.6	5.9	4.7	5.5
Oklahoma City	5.5	5.4	5.3	5.0
Tulsa	7.2	6.8	7.5	6.5
Oregon	5.2	4.9	5.4	5.5
Eugene-Springfield	5.4	5.0	5.4	5.2
Portland	4.6	4.3	4.6	4.4
Salem	5.0	4.6	5.5	5.3
Pennsylvania[2]	5.3	5.1	5.2	4.3
Allentown-Bethlehem[1]	4.6	4.2	4.7	3.6
Altoona	6.8	6.8	7.1	6.0
Beaver County	10.0	8.5	9.1	7.2
Erie	6.5	6.1	6.7	5.0
Harrisburg-Lebanon-Carlisle	3.8	4.2	4.3	3.7
Johnstown	7.5	7.0	7.9	6.1

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	October		November	
	1987	1988	1987	1988p
Lancaster	4.1	4.0	4.3	3.1
Philadelphia[1]	4.2	4.1	3.9	3.5
Pittsburgh	6.1	5.5	5.9	4.8
Reading	4.1	3.7	4.5	3.6
Scranton-Wilkes-Barre	6.4	5.9	6.5	5.3
Williamsport	5.0	4.9	5.6	4.5
York	4.4	4.4	4.5	3.8
Rhode Island	3.0	2.5	3.1	2.7
Pawtucket-Woonsocket-Attleboro[1]	3.4	3.2	3.3	3.6
Providence	3.0	2.4	3.0	2.6
South Carolina	5.0	4.6	5.1	4.4
Charleston	4.2	4.0	4.3	3.8
Columbia	3.7	3.3	3.8	3.2
Greenville-Spartanburg	3.9	3.5	3.9	3.4
South Dakota	3.3	4.2	5.1	4.3
Rapid City	4.1	5.4	4.3	4.7
Sioux Falls	2.6	4.0	6.3	4.4
Tennessee	5.7	5.7	5.9	5.8
Chattanooga[1]	4.9	5.6	4.9	5.6
Johnson City-Kingsport-Bristol[1]	6.0	4.8	6.1	5.4
Knoxville	4.9	5.3	5.8	6.0
Memphis LMA[1]	5.2	5.1	5.3	5.0
Nashville	4.3	4.3	4.3	4.3
Texas[2]	7.4	6.8	7.9	6.6
Abilene	7.1	5.6	7.7	5.5
Amarillo	5.8	6.0	6.3	5.8
Austin	6.0	5.6	6.6	5.3
Beaumont-Port Arthur	10.4	9.4	11.0	9.1
Brazoria	8.4	7.1	8.8	7.0
Brownsville-Harlingen	13.0	11.8	14.3	11.1
Bryan-College Station	4.7	4.5	5.0	4.1
Corpus Christi	10.0	8.6	10.6	8.0
Dallas	5.8	5.6	6.1	5.3
El Paso	9.9	10.6	10.6	10.2
Fort Worth-Arlington	6.0	5.9	6.5	5.6
Galveston-Texas City	9.5	8.0	9.8	7.5
Houston	7.6	6.2	7.9	5.9
Killeen-Temple	7.5	8.0	7.9	7.4
Laredo	12.6	11.7	14.3	11.7
Longview-Marshall	9.1	8.5	9.5	8.1
Lubbock	5.3	5.0	5.5	4.6
McAllen-Edinburg-Mission	16.8	16.6	18.6	15.9
Midland	7.2	5.4	7.4	5.3
Odessa	8.1	7.4	8.0	7.3
San Angelo	5.6	5.9	5.9	5.4
San Antonio	7.3	7.4	7.7	7.0
Sherman-Denison	7.0	6.5	7.4	6.1
Texarkana[1]	7.4	7.5	7.8	7.5
Tyler	7.5	7.1	8.2	6.8

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	October 1987	October 1988	November 1987	November 1988p
Victoria	7.6	6.2	7.8	5.7
Waco	7.5	6.0	8.2	5.6
Wichita Falls	6.7	5.5	6.9	5.5
Utah	5.3	4.3	5.6	4.9
Provo-Orem	5.1	3.8	5.4	4.0
Salt Lake City-Ogden	5.0	4.2	5.3	4.8
Vermont	3.3	2.3	3.3	2.9
Burlington	2.6	1.7	2.4	2.1
Virginia	3.9	4.0	4.0	4.1
Charlottesville	2.3	3.0	2.4	2.6
Danville	6.6	6.8	6.8	6.6
Lynchburg	4.9	5.2	5.3	4.5
Norfolk-Virginia Beach-Newport News	4.6	4.9	4.6	4.9
Richmond-Petersburg	3.7	3.4	3.7	3.6
Roanoke	4.2	4.4	4.3	4.4
Washington	6.9	5.4	7.4	6.0
Seattle	5.8	4.5	5.8	4.6
West Virginia	8.4	8.8	9.2	9.0
Charleston	7.7	7.7	8.2	7.7
Huntington-Ashland[1]	8.5	6.8	8.9	6.9
Parkersburg-Marietta[1]	6.7	6.3	7.2	6.4
Wheeling[1]	7.3	6.8	8.1	7.2
Wisconsin	4.7	3.4	5.5	3.8
Appleton-Oshkosh-Neenah	4.5	3.3	5.3	3.6
Eau Claire	4.5	3.1	5.9	4.0
Green Bay	4.9	3.6	5.7	3.7
Janesville-Beloit	6.0	3.4	6.2	4.5
Kenosha	5.0	3.4	6.5	3.5
La Crosse	3.7	2.9	4.7	3.1
Madison	3.0	2.2	3.8	2.6
Milwaukee	4.3	3.2	4.7	3.1
Racine	5.1	3.8	5.8	4.2
Wausau	4.6	3.4	5.8	4.1
Wyoming	6.5	5.8	7.2	7.1

[1] Includes interstate portion of area located in adjacent State.

[2] Data are obtained directly from the Current Population Survey. (See "Explanatory Notes" for State and Area Labor Force Data in Employment and Earnings, Monthly.)

p = preliminary.

NOTE: Data refer to place of residence. Estimates for 1987 have been benchmarked to 1987 Current Population Survey annual averages and may differ from data published earlier. Except in the 11 States designated by footnote 2, estimates for 1988 are provisional and will be revised when new benchmark information becomes available.

EMPLOYMENT AND LABOR FORCE PROJECTIONS

Labor Force Changes

The work force and nature of work in the 1990's will depend upon demographic, economic, social, and technical factors, among others. The discussion which follows is based upon Bureau of Labor Statistics projections prepared in 1987. Examined are changes in the population, labor force, industries, and occupations that are expected by 2000.

Population changes directly affect employment opportunities. As the size and characteristics of the population change, so does the nature of goods and services demanded. Population changes also influence the labor force and the difficulty or ease with which one can find a job. Of particular interest are the growth rate of the population, changes in the age structure of the population, and changes in the population centers of the Nation.

The post-World War II "baby boom" has been followed by a "baby bust." Consequently, we can expect a slower growing labor force and one in which the average age will creep upward. In 1986 the civilian labor force totaled just under 118 million and the median age was 35.3 years. By 2000 the level is projected to be about 139 million and the median age, 38.9 years. Additions to the labor force will be lower over the next decade because fewer teenagers are in the population and there is expected to be a slowdown in the number and proportion of women seeking jobs. Nevertheless, women are projected to account for 6 out of every 10 new entrants to the labor force (see table 6).

Some 2 out of every 10 new entrants through 2000 are expected to be black and 3 out of 10 to be Hispanics. For both groups, this is a direct result of their higher birth rates. For Hispanics, it also relates to assumptions about the rate of immigration.

The aging of the baby-boom, coupled with projected declines in labor force participation among older persons, will result in 73 percent of the labor force in 2000 being between the ages of 25 and 54 (prime-age workers). In 1986, 67 percent of the labor force was made up of this age group. In fact, the growth in the size of the prime-age labor force is projected to be greater than the increase in the total labor force. Labor force participation of older persons is expected to continue declining as relatively more workers become eligible for pensions and select early retirement (see table 7).

Population shifts are expected to continue to the South and West. While the West is projected to have the fastest rate of population growth, the South is projected to have the largest absolute population increase. Population levels in the Midwest are expected to remain stable while the population in the Northeast is expected to decline. These trends could affect the supply of labor available to meet demand. Furthermore, the Northeast will have the oldest age distribution with nearly 15 percent of its population aged 65 and over. On the other hand, the West is projected to have the youngest distribution with more than one-fifth of its population below the age of 15 and nearly 70 percent below the age of 44. The South and Midwest age distributions are projected to be around the national average. These varying age distributions will affect the kinds of goods and services demanded in different areas, and in turn, the kinds of jobs created.

The differences in the regions described above have a direct effect on the nature of the labor market. Rapidly growing regions usually demand more public services, have high rates of construction, and offer many job openings. At the same time, however, the competition for jobs is more intense in slower-growing areas. Thus, it is important that regional differences be taken into account when examining national labor force and occupational projections.

Another factor that will have an impact on an individual's ability to find a job is their educational level. The overall educational level of workers has increased significantly over the postwar period. In 1988, nearly 50 percent of workers between the ages of 25 and 34 had completed at least 1 year of college and more than 25 percent had 4 or more years of college. This clearly puts less educated workers at a distinct disadvantage. About 25 percent of college graduates in the labor force in 1986 had to accept positions that did not require a college degree. Prospects for college graduates are expected to brighten through 2000 as the oversupply is projected to shrink.

Employment Changes

That service-producing industries are projected to grow faster than goods-producing industries is of little surprise. The Bureau of Labor Statistics predicts that more than 9 out of 10 jobs created over the next decade will be in service-producing industries (see table 8). This group includes the following industries: transportation, communications, and public utilities; trade (wholesale and retail); finance, insurance, and real estate; services; and government. The services industry is projected to create the most new jobs by 2000. Business services, including data processing, temporary help agencies, and building services, are expected to grow faster and add more new jobs than any other industry. The trade sector is projected to be the next largest growing industry, particularly eating and drinking places among retail establishments.

Employment in goods-producing industries (mining, construction, manufacturing, and agriculture) is projected to increase quite modestly over the upcoming decade (see table 8). In fact, the projections show employment in 2000 not hitting the peak reached in 1979. Durable goods manufacturing (e.g., computers, machinery, and electric components), nondurable manufacturing (e.g., food processing, textile and apparel industries), agriculture, and mining (e.g., coal, oil) are expected to lose jobs between 1986 and 2000. Employment in the construction industry is expected to grow modestly.

The Bureau of Labor Statistics suggests two ways of looking at occupational employment projections. One is by the actual number of jobs expected to be added and the other is by rate of growth (see tables 9 and 10). The distinction is important because occupations currently with large numbers of workers could add a significant number of jobs but show a relatively low growth rate. On the other hand, occupations with few workers could show high rates of growth but actually add few new jobs. The 20 occupations with the largest job growth are generally those requiring a low level of skills, e.g., cashiers, janitors and cleaners, truck drivers, waiters and waitresses, salesworkers, and food preparation workers (see table 9). This list does contain computer programmers and computer systems analysts, which are among the fastest growing occupations (see table 10). Nevertheless, computer and scientific and technical occupations account only for a small portion of the jobs that are projected to be added by 2000.

Just as there are occupations expected to grow over the next decade, there are occupations projected to decline. These occupations, such as sewing machine operators, railroad brakemen, farmers and farm workers, are concentrated in industries which have been contracting over the past several years including apparel, textiles, railroad transportation, and agriculture. Other occupations are projected to decline because of changes in technology. These include stenographers, statistical clerks, telephone installers and repairers, and operators.

Replacement

When one examines labor force and employment projections, one must also take into account job openings that will result from turnover or replacement needs. Openings take place when individuals transfer to new jobs, stop working (for various reasons), or retire. Jobs resulting from replacement needs are projected to be the source of most job openings. In 1983–84, the Bureau of Labor Statistics estimates that replacements accounted for 81 percent of all job openings.

Replacement needs vary significantly across occupations. Those that require little education and training have high separation rates. Many of these jobs are part-time and employ a large number of young workers. On the other hand, jobs requiring high educational levels or significant training have low replacement rates.

What is important to remember is that job replacement is the major source of employment opportunities in the U.S. economy. If the data for 1983–84 should be typical through 2000, we see that looking at net employment growth by itself will not give a good indication of where the employment opportunities will develop over this time period.

TABLE 6.—CIVILIAN LABOR FORCE, BY SEX, AGE, AND RACE, ACTUAL 1972–86, AND MIDDLE GROWTH PROJECTIONS TO 2000

Group	Actual			Projected
	1972	1979	1986	2000
Total, 16 years and over (thousands)	87,037	104,960	117,837	138,775
Men	53,556	60,727	65,423	73,136
16 to 24	11,243	13,645	12,251	11,506
25 to 54	33,133	37,926	44,406	53,024
55 and over	9,180	9,156	8,766	8,606
Women	33,481	44,233	52,414	65,639
16 to 24	8,943	11,760	11,117	11,125
25 to 54	19,192	26,594	35,159	47,756
55 and over	5,346	5,879	6,138	6,758
White	77,275	91,922	101,801	116,701
Black	8,748	10,665	12,684	16,334
Asian and other		2,373	3,352	5,740
Hispanic		5,215	8,076	14,086
Total, 16 years and over (percent)	100.0	100.0	100.0	100.0
Men	61.5	57.9	55.5	52.7
16 to 24	12.9	13.0	10.4	8.3
25 to 54	38.1	36.1	37.7	38.2
55 and over	10.5	8.7	7.4	6.2
Women	38.5	42.1	44.5	47.3
16 to 24	10.3	11.2	9.4	8.0
25 to 54	22.1	25.3	29.8	34.4
55 and over	6.1	5.6	5.2	4.9
White	88.8	87.6	86.4	84.1
Black	10.1	10.2	10.8	11.8
Asian and other		2.3	2.8	4.1
Hispanic		5.0	6.9	10.2

Source: Bureau of Labor Statistics.

TABLE 7.—CIVILIAN LABOR FORCE AND PARTICIPATION RATES BY SEX, AGE, AND RACE, ACTUAL 1972–86, AND MIDDLE GROWTH PROJECTION FOR 2000

Group	Participation rate			Level (thousands)		
	Actual		Projected	Actual		Projected
	1972	1986	2000	1972	1986	2000
Total, 16 years and over	60.4	65.3	67.8	87,037	117,837	138,775
Men	79.0	76.3	74.7	53,556	65,423	73,136
16 to 19	58.1	56.4	60.2	4,478	4,102	4,501
20 to 24	83.9	85.8	87.5	6,765	8,149	7,005
25 to 34	95.7	94.6	93.6	12,349	19,383	16,559
35 to 44	96.4	94.8	93.9	10,372	15,029	20,133
45 to 54	93.2	91.0	90.1	10,412	9,994	16,332
55 to 64	80.4	67.3	63.2	7,155	6,954	7,238
65 and over	24.3	16.0	9.9	2,025	1,812	1,368
Women	43.9	55.3	61.5	33,481	52,414	65,639
16 to 19	45.8	52.9	59.2	3,578	3,824	4,379
20 to 24	59.1	72.4	78.4	5,365	7,293	6,746
25 to 34	47.8	71.6	82.3	6,609	15,209	15,098
35 to 44	52.0	73.1	84.2	6,028	12,204	18,438
45 to 54	53.9	65.9	75.4	6,555	7,746	14,220
55 to 64	42.1	42.3	45.8	4,257	4,940	5,732
65 and over	9.3	7.4	5.4	1,089	1,198	1,026
White	60.4	65.5	68.2	77,275	101,801	116,701
Men	79.6	76.9	75.3	48,118	57,216	62,252
Women	43.2	55.0	61.5	29,157	44,585	54,449
Black	60.2	63.5	66.0	8,748	12,684	16,334
Men	73.9	71.2	70.7	4,855	6,373	7,926
Women	48.8	57.2	62.1	3,893	6,311	8,408
Asian and other		64.9	65.8		3,352	5,740
Men		74.9	72.4		1,834	2,958
Women		55.9	60.1		1,518	2,782
Hispanic		65.4	68.7		8,076	14,086
Men		81.0	80.4		4,948	8,303
Women		50.1	56.9		3,128	5,783

Source: Bureau of Labor Statistics.

TABLE 8.—EMPLOYMENT BY MAJOR SECTOR, 1972–2000

Economic sector	Employment (in thousands) [1]			
	Actual			Projected [2]
	1972	1979	1986	2000 Moderate
Total	85,549	101,353	111,623	133,030
Nonfarm wage and salary	73,514	89,481	99,044	119,156
Goods-producing	23,668	26,463	24,681	24,678
Mining	628	958	783	724
Construction	3,889	4,463	4,904	5,794
Manufacturing	19,151	21,042	18,994	18,160
Durable	11,050	12,762	11,244	10,731
Nondurable	8,101	8,280	7,750	7,429
Service-producing	49,846	63,018	74,363	94,478
Transportation and public utilities	4,541	5,135	5,244	5,719
Wholesale trade	4,113	5,204	5,735	7,266
Retail trade	11,835	14,989	17,845	22,702
Finance, insurance, and real estate	3,907	4,975	6,297	7,917
Services	12,117	16,768	22,531	32,545
Government	13,333	15,947	16,711	18,329
Agriculture	3,523	3,401	3,252	2,917
Private households	1,693	1,326	1,241	1,215
Nonfarm self-employed and unpaid family workers	5,819	7,145	8,086	9,742
	Percent distribution of employment			
Total	100.0	100.0	100.0	100.0
Nonfarm wage and salary	86.9	88.3	88.7	89.6
Goods-producing	28.0	26.1	22.1	18.6
Mining	.7	.9	.7	.5
Construction	4.6	4.4	4.3	4.4
Manufacturing	22.7	20.8	17.0	13.7
Durable	13.1	12.6	10.1	8.1
Nondurable	9.6	8.2	6.9	5.6
Service-producing	59.0	62.2	66.6	71.0
Transportation and public utilities	5.4	5.1	4.7	4.3
Wholesale trade	4.9	5.1	5.1	5.5
Retail trade	14.0	14.8	16.0	17.1
Finance, insurance, and real estate	4.6	4.9	5.6	6.0
Services	14.3	16.5	20.2	24.5
Government	15.8	15.7	15.0	13.8
Agriculture	4.2	3.4	2.9	2.2
Private households	2.0	1.3	1.1	.9
Nonfarm self-employed and unpaid family workers	6.9	7.1	7.2	7.3

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[1] Includes wage and salary jobs, the self-employed, and unpaid family workers.

[2] Under moderate scenario.

Source: Bureau of Labor Statistics.

TABLE 9.—OCCUPATIONS WITH THE LARGEST JOB GROWTH, 1986–2000

[Numbers in thousands]

Occupation	Employment		Change in employment 1986–2000		Percent of total job growth 1986–2000
	1986	2000	Number	Percent	
Salespersons, retail	3,579	4,780	1,201	33.5	5.6
Waiters and waitresses	1,702	2,454	752	44.2	3.5
Registered nurses	1,406	2,018	612	43.6	2.9
Janitors and cleaners, including maids and housekeeping cleaners	2,676	3,280	604	22.6	2.8
General managers and top executives	2,383	2,965	582	24.4	2.7
Cashiers	2,165	2,740	575	26.5	2.7
Truck drivers, light and heavy	2,211	2,736	525	23.8	2.5
General office clerks	2,361	2,824	462	19.6	2.2
Food counter, fountain, and related workers	1,500	1,949	449	29.9	2.1
Nursing aides, orderlies, and attendants	1,224	1,658	433	35.4	2.0
Secretaries	3,234	3,658	424	13.1	2.0
Guards	794	1,177	383	48.3	1.8
Accountants and auditors	945	1,322	376	39.8	1.8
Computer programmers	479	813	335	69.9	1.6
Food preparation workers	949	1,273	324	34.2	1.5
Teachers, kindergarten and elementary	1,527	1,826	299	19.6	1.4
Receptionists and information clerks	682	964	282	41.4	1.3
Computer systems analysts, electronic data processing	331	582	251	75.6	1.2
Cooks, restaurant	520	759	240	46.2	1.1
Licensed practical nurses	631	869	238	37.7	1.1
Gardners and groundskeepers, except farm	767	1,005	238	31.1	1.1
Maintenance repairers, general utility	1,039	1,270	232	22.3	1.1
Stock clerks, sales floor	1,087	1,312	225	20.7	1.0
First-line supervisors and managers	956	1,161	205	21.4	1.0
Dining room and cafeteria attendants and barroom helpers	433	631	197	45.6	.9
Electrical and electronics engineers	401	592	192	47.8	.9
Lawyers	527	718	191	36.3	.9

Source: Bureau of Labor Statistics.

TABLE 10.—FASTEST GROWING OCCUPATIONS, 1986–2000

[Numbers in thousands]

Occupation	Employment		Change in employment 1986–2000		Percent of total job growth 1986–2000
	1986	2000	Number	Percent	
Paralegal personnel	61	125	64	103.7	0.3
Medical assistants	132	251	119	90.4	.6
Physical therapists	61	115	53	87.5	.2
Physical and corrective therapy assistants and aides	36	65	29	81.6	.1
Data processing equipment repairers	69	125	56	80.4	.3
Home health aides	138	249	111	80.1	.5
Podiatrists	13	23	10	77.2	0
Computer systems analysts, electronic data processing	331	582	251	75.6	1.2
Medical records technicians	40	70	30	75.0	.1
Employment interviewers, private or public employment service	75	129	54	71.2	.3
Computer programmers	479	813	335	69.9	1.6
Radiologic technologists and technicians	115	190	75	64.7	.3
Dental hygienists	87	141	54	62.6	.3
Dental assistants	155	244	88	57.0	.4
Physician assistants	26	41	15	56.7	.1
Operations and systems researchers	38	59	21	54.1	.1
Occupational therapists	29	45	15	52.2	.1
Peripheral electronic data processing equipment operators	46	70	24	50.8	.1
Data entry keyers, composing	29	43	15	50.8	.1
Optometrists	37	55	18	49.2	.1

Source: Bureau of Labor Statistics.

DISLOCATED WORKERS

In recent years, the phrase "structurally unemployed" has become synonymous with "dislocated workers." Whether because of heightened international competition, more pervasive technological change, or continuing shifts in the pattern of domestic consumption, some adult workers with lengthy, stable work histories have lost and in some instances are still losing their jobs. Through no fault of their own, these individuals are being permanently laid off; they are unlikely to be recalled by their former employers as typically would be the case after recovery from a recession. Depending upon their skill level, demographic characteristics, and area of residence, some dislocated workers are likely to experience great difficulty finding other, comparable jobs.

During the back-to-back recessions of the early 1980's debate often occurred about whether the blue-collar factory workers being laid off in large numbers were all structurally unemployed, or whether most were cyclically unemployed and would have good reemployment prospects once the economy turned around. This debate prompted analysts to try to estimate the number of "truly" dislocated workers; i.e., those who would face dim reemployment opportunities even after an economic recovery. According to the various estimates made during the recession years, anywhere from as few as 100,000 to as many as 2.2 million persons might belong to the dislocated worker group, depending upon how it was defined.[1]

Because much of our knowledge about dislocated workers was indirect and anecdotal in the early 1980's, the U.S. Bureau of Labor Statistics (BLS) was asked to gather more precise information about the group. A special supplement to the Current Population Survey was designed and asked of survey respondents. The first survey's results cover the labor force experience of dislocated workers between January 1979 and January 1984; the second survey, between January 1981 and January 1986, and the third survey, between January 1983 and 1988. The following analysis examines the most recent survey's results and notes differences between earlier and later time periods when appropriate.[2]

Characteristics of the dislocated worker population

A total of 9.7 million adult workers (age 20 or older) lost jobs between January 1983 and January 1988 due to plant closings or relocations, slack work, or abolishment of a position or shift. More than half of those workers had not been at their jobs for a long period, however. Since dislocated workers, by widely accepted definition, are supposed to have had a strong attachment to their former jobs, the BLS established a cutoff of at least 3 years job tenure on the jobs that they lost. Based upon this criterion, in the 5-year period, there were about 4.7 million dislocated workers.

Most were in their prime working years, white, male, in blue-collar factory occupations, and living in the Midwest. As shown by the data in table 13, about half of the 4.7 million were men between 25 and 54 years old. Less than three out of every five were white men. Some 46 percent had worked in the unskilled and semiskilled blue-collar occupations of operators, fabricators, and laborers (28 percent) or the skilled blue-collar occupations of precision production, craft and repair (18 percent). Almost two out of five had lost jobs in manufacturing industries. Less than one out of five lived in the East North Central region, which includes Illinois, Indiana, Michigan, Ohio, and Wisconsin.

In the last 5 years, fewer workers were displaced. The two earlier survey periods included the 1981–82 recession, while the latest survey reflects the job growth that has occurred during the economic expansion. Moreover, relatively fewer manufacturing workers lost their jobs between 1983 and 1988 and so displacement among blue-collar occupations declined.

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[1] Bendick, Marc, and Judith Radlinski Devine. Workers Displaced by Economic Change: Do They Need Federal Employment and Training Assistance? In National Commission for Employment Policy. The Federal Interest in Employment and Training, Seventh Annual Report. Washington, 1981, p. 196; and U.S. Congressional Budget Office. Dislocated Workers: Issues and Federal Options. Washington, July 1982, p. 5, 38–39.

[2] Flaim, Paul and Ellen Sehgal. Displaced Workers of 1979–83: How Well Have They Fared? Monthly Labor Review, June 1985, p. 3–16; Horvath, Francis W. The Pulse of Economic Change: Displaced Workers of 1981–85. Monthly Labor Review, June 1987, p. 3–12; and U.S. Bureau of Labor Statistics. BLS Reports on Worker Displacement, USDL 88–611. Washington, December 9, 1988. 10 p.

Their reemployment experience

By January 1988, 71 percent of dislocated workers had found new jobs. Because of economic expansion, the proportion of dislocated workers with jobs in January 1988 was 11 percentage points higher than the level found in January 1984 among the first survey group. About 14 percent of the latest survey group were still unemployed as opposed to 27 percent of the first group. The proportion of individuals no longer in the labor force remained unchanged, indicating that all of the improvement in dislocated workers' employment status was due to their finding jobs rather than their withdrawing from the labor force.

Some characteristics appear to be related to how successful dislocated workers are at becoming reemployed. Depending upon an individual's age, occupation, and geographic location, there was substantial variation around the overall reemployment rate of 71 percent.

Reemployment difficulties increased with age. Over 75 percent of workers between 20 and 54 years old had found new jobs, compared to 46 percent of workers age 55 or older. In addition, a large share of older workers left the labor force rather than continuing to look for work. Labor force withdrawal was much more prevalent for those age 65 or older, some of whom probably chose retirement over unemployment.

The occupations of dislocated workers influenced their reemployment chances, as well. The more skilled the occupation of the worker, the data suggest, the greater the prospect of their having found work. More than three out of four managerial and professional workers were in new jobs. Over 7 out of 10 skilled blue-collar workers (i.e., those formerly in precision production, craft, and repair jobs) found other work. Alternatively, among the less skilled blue-collar group of operators, fabricators, and laborers, about two-thirds were reemployed. About two-thirds of the workers formerly in service occupations found new jobs as well.

Area of residence also affected the likelihood of dislocated workers having found other employment. Just as workers who lost their jobs were concentrated in the East North Central region, one out of five dislocated workers still unemployed in January 1988 lived in the region.

The dependence of the East North Central's economy on so-called declining manufacturing industries has contributed to its low rate of reemployment.[3] The same dependence has hampered reemployment of dislocated workers in the Middle Atlantic, East South Central, and West North Central regions. Much of the regions' workers were employed by the primary metals, fabricated metals, nonelectrical machinery, and transportation equipment industries. During the two recessions to date in the 1980s, these manufacturing industries laid off large numbers of workers. Through 1986, manufacturing employment in several States comprising these regions (e.g., Illinois, Indiana, Iowa, Michigan, New Jersey, Ohio, and Pennsylvania) failed to regain prerecession (1979) levels.[4] Contraction in these industries meant employment cutbacks in other industries that supplied them with raw materials, parts, and equipment. It also meant reduced spending and fewer jobs at area stores, restaurants, and other consumer-related establishments. As a consequence, dislocated workers in these regions faced a slack and competitive labor market.

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[3] U.S. Library of Congress, Congressional Research Service. Employment Trends in the 1980s from a National, Industrial, and Geographic Perspective. CRS Report no. 86-130E, by Linda LeGrande and Mark Jickling. Washington, July 7, 1986, p. 13, 20–22, and 29.

While displacement decreased between the second and third surveys in most regions, it rose in the West South Central and Mountain States. Weakness in the energy industry likely accounts for the rise.

Reemployment at comparable jobs?

While dislocated workers with new jobs are better off than their still unemployed counterparts, the new jobs do not necessarily afford them the standard of living which they previously had enjoyed. In many instances, the hours of work and wages for reemployed dislocated workers are less favorable in their new jobs.

Of the 3.2 million dislocated workers reemployed in January 1988, about 2.6 million previously held and were able to find new full-time jobs. However, 1 out of 10 was reemployed on a part-time basis. Because they are now working fewer hours, their current earnings are apt to be substantially lower than their predisplacement, full-time pay.

Even among the dislocated workers again employed in full-time wage and salary jobs, 38 percent took pay cuts. The prevalence of pay cuts and the size of the cuts appear to be associated with the industries in which jobs were lost. Generally, former full-time manufacturing workers were the hardest hit: 41 percent were in lower paying jobs; 26 percent were in jobs paying at least one-fifth less than they previously earned. Among manufacturing workers, 48 percent of workers displaced from the relatively high-paying steel industry were earning less than they had on their former jobs.

In January 1988, the ending date of the latest dislocated worker survey, there were about 7 million unemployed individuals. Dislocated workers who were without jobs at that time accounted for 9.4 percent of national civilian unemployment. In January 1984, there were almost 9 million unemployed persons. Dislocated workers still jobless at that time accounted for 14.4 percent of the Nation's civilian unemployment. Thus, dislocated workers represent a relatively small, and decreasing, share of the Nation's jobless.

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[4] U.S. Library of Congress, Congressional Research Service. Manufacturing Job Trends by Geographic Area. CRS Report no. 88-55E, by Linda LeGrande. Washington, January 15, 1988, p. 3-5.

TABLE 11.—SELECTED INFORMATION ON THE REEMPLOYMENT EXPERIENCE OF DISLOCATED WORKERS, JANUARY 1988

Characteristic	Number who lost jobs (in thousands)	Percent distribution		
		Employed	Unemployed	Not in the labor force
Total, 20 years or older	4,739	71.4	13.9	14.7
20 to 24 years old	153	77.7	15.6	6.8
25 to 54 years old	3,700	77.1	14.1	8.8
55–64 years old	696	50.7	14.6	34.7
65 years or older	190	30.4	6.6	63.0
Men, 20 years or older	3,024	74.2	15.4	10.5
Women, 20 years or older	1,715	66.4	11.4	22.2
Whites, 20 years or older	4,112	72.4	12.8	14.8
Blacks, 20 years or older	509	65.0	20.7	14.3
Hispanics, 20 years or older	364	66.6	18.8	14.6
Occupation of lost job:				
Managerial and professional	823	78.0	11.3	10.7
Technical, sales, and administrative support	1,341	71.9	9.7	18.4
Technicians and related	171	76.4	10.3	13.4
Sales	515	73.9	9.2	16.9
Administrative support, including clerical	655	69.1	10.0	20.8
Service occupations	319	65.1	16.1	18.8
Precision production, craft, repair	856	71.4	17.8	10.9
Operators, fabricators, and laborers	1,346	68.2	16.6	15.3
Farming, forestry, and fishing occupations	54	...	...	...
Industry of lost job:				
Private nonfarm, wage and salary workers	4,546	71.3	13.9	14.8
Mining	230	67.7	14.2	18.1
Construction	403	69.4	22.5	8.1
Manufacturing	1,829	69.4	15.9	14.6
Transport and public utilities	295	73.4	14.4	12.2
Wholesale and retail trade	945	73.2	7.7	19.1
Finance, insurance, and real estate	250	78.1	6.5	15.4
Services	594	72.7	14.1	13.2
Area of residence:				
New England	204	73.5	14.2	12.3
Middle Atlantic	667	67.6	13.6	18.7
East North Central	889	68.1	17.7	14.3
West North Central	371	76.0	8.9	15.1
South Atlantic	620	73.1	9.7	17.3
East South Central	311	68.2	17.0	14.8
West South Central	680	72.5	14.1	13.4
Mountain	328	72.3	13.4	14.3
Pacific	669	74.4	14.5	10.9

Source: U.S. Bureau of Labor Statistics.

HISTORICAL INFORMATION ON THE UNEMPLOYMENT COMPENSATION PROGRAM

TABLE 12.—EXHAUSTIONS—REGULAR STATE PROGRAMS

[In thousands]

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
January	162	169	152	147	229	332	261	211	184	215	309	258	421	269	238	290	229	176
February	158	168	127	129	230	295	251	184	160	201	275	267	394	245	207	208	218	170
March	188	184	143	146	278	326	290	201	193	220	291	341	470	251	228	231	245	198
April	182	171	138	167	369	305	265	192	185	259	289	362	431	245	253	256	244	183
May	167	179	141	178	406	273	242	193	195	251	246	338	398	243	235	233	206	174
June	180	159	119	159	438	282	254	176	162	246	244	378	383	198	194	214	204	172
July	164	149	119	190	487	263	215	151	169	298	247	360	336	213	235	245	210	162
August	161	153	124	174	413	254	234	158	166	256	215	365	341	212	205	212	179	169
September	149	121	100	145	370	239	198	138	140	254	207	351	264	163	182	210	171	143
October	136	117	111	155	350	212	183	133	161	292	200	347	244	197	208	223	161	140
November	140	123	110	152	291	231	192	144	159	259	201	384	249	183	180	183	153	140
December	154	120	112	186	336	251	192	149	162	319	265	424	248	188	214	241	184	NA
Total	1,942	1,811	1,495	1,926	4,195	3,262	2,776	2,030	2,037	3,072	2,989	4,175	4,180	2,607	2,579	2,746	2,404	NA

NA—Not available.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 13.—STATE PROGRAM EXHAUSTIONS—EXTENDED BENEFITS

[In thousands]

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
January	10	52	366	177	126	11	24	169	9	91	7	4	5	9	0
February	9	50	215	166	66	10	15	128	14	95	6	4	6	0	0
March	10	100	244	187	50	13	18	134	38	128	7	(1)	5	5	0
April	13	161	253	177	45	15	28	117	114	153	6	7	5	1	1
May	62	207	190	159	49	31	74	95	134	156	12	9	4	2	1
June	65	228	197	170	49	19	66	90	193	120	3	5	3	2	0
July	55	245	175	141	50	13	67	48	128	44	1	5	8	1	0
August	41	245	178	92	38	12	64	21	121	23	(1)	6	14	1	0
September	38	271	180	94	23	11	139	23	126	11	(1)	5	8	0	0
October	47	294	174	137	30	14	208	15	126	7	1	4	8	0	0
November	46	258	187	136	12	12	147	14	93	6	3	3	7	0	0
December	47	286	178	137	10	11	189	11	94	6	4	(1)	13	0	NA
Year total	441	2,398	2,536	1,774	549	172	1,039	862	1,188	840	50	52	86	21	NA

[1] Less than 500.

NA—Not available.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 14.—BENEFIT EXHAUSTIONS UNDER FEDERAL SUPPLEMENTAL BENEFITS (1974–77) AND FEDERAL SUPPLEMENTAL COMPENSATION (1982–85)

[In thousands]

	Federal supplemental benefits					1978–81 [1]	Federal supplemental compensation				
	1973	1974	1975	1976	1977		1982	1983	1984	1985	1986 [1]
January	....	....	49	108	185	....	....	226	225	98	....
February	....	....	63	130	105	....	....	419	168	80	....
March	....	....	112	136	73	....	....	315	145	89	....
April	....	....	97	169	33	....	....	68	113	83	....
May	....	1	96	181	33	....	....	113	115	75	....
June	....	6	80	164	7	....	....	730	95	33	....
July	....	49	91	169	....	....	....	352	96	....	....
August	....	35	93	174	....	....	....	291	94	....	....
September	....	48	92	145	....	....	....	300	79	....	....
October	....	119	81	157	....	....	18	215	90	....	....
November	....	58	103	116	....	....	350	130	81	....	....
December	....	58	103	116	....	....	314	424	81	....	....
Total	....	374	1,060	1,765	436	....	682	3,583	1,382	458	....

[1] There was no program in these years.

Note.—FSC exhaustions are not additive because reach back provisions caused claimants to receive as many as 3 final payments.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 15.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1988

[In millions of dollars]

State	Programs		Total
	Regular	Extended	
Alabama	142	0	142
Alaska	92	8	100
Arizona	117	0	117
Arkansas	123	0	123
California	1,708	0	1,708
Colorado	182	0	182
Connecticut	173	0	173
Delaware	38	0	38
District of Columbia	66	0	66
Florida	278	0	278
Georgia	217	0	217
Hawaii	49	0	49
Idaho	59	0	59
Illinois	755	0	755
Indiana	129	0	129

TABLE 15.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1988—Continued

[In millions of dollars]

State	Programs		Total
	Regular	Extended	
Iowa	120	0	120
Kansas	151	0	151
Kentucky	144	0	144
Louisiana	246	0	246
Maine	50	0	50
Maryland	185	0	185
Massachusetts	496	0	496
Michigan	1,113	0	1,113
Minnesota	305	0	305
Mississippi	85	0	85
Missouri	224	0	224
Montana	39	0	39
Nebraska	44	0	44
Nevada	63	0	63
New Hampshire	12	0	12
New Jersey	600	0	600
New Mexico	61	0	61
New York	1,096	0	1,096
North Carolina	184	0	184
North Dakota	30	0	30
Ohio	605	0	605
Oklahoma	114	0	114
Oregon	202	0	202
Pennsylvania	846	0	846
Puerto Rico	87	0	87
Rhode Island	77	0	77
South Carolina	82	0	82
South Dakota	13	0	13
Tennessee	178	0	178
Texas	823	0	823
Utah	70	0	70
Vermont	24	0	24
Virginia	135	0	135
Virgin Islands	2	0	2
Washington	362	0	362
West Virginia	105	0	105
Wisconsin	290	0	290
Wyoming	28	0	28

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance, Division of Actuarial Service. Data include State programs and programs for Federal employees and ex-service members.

TABLE 16.—U.S. AVERAGE BENEFIT COST RATE: REGULAR STATE UI PLUS ½ EXTENDED BENEFIT AS PERCENT OF COVERED WAGES

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	1.52	1.19	1.05	1.06	1.20
1972	1.23	.92	.78	.72	.91
1973	.96	.72	.62	.66	.74
1974	1.13	.98	.89	1.13	1.03
1975	2.31	2.31	1.90	1.68	2.05
1976	1.85	1.42	1.28	1.30	1.46
1977	1.62	1.17	1.00	1.02	1.20
1978	1.19	.82	.73	.70	.86
1979	1.03	.77	.73	.81	.84
1980	1.23	1.23	1.32	1.21	1.25
1981	1.31	1.02	.93	1.09	1.09
1982	1.61	1.56	1.55	1.66	1.59
1983	1.87	1.42	1.02	.88	1.30
1984	1.03	.78	.68	.75	.81
1985	1.01	.81	.74	.77	.83
1986	.99	.83	.77	.78	.84
1987	.93	.72	.61	.70	.74
1988	.95	.70	.65	NA	NA

NA—Not available. Note: 1971–74 EB data not available.

TABLE 17.—U.S. AVERAGE WAGE REPLACEMENT RATE: RATIO OF AVERAGE WEEKLY BENEFIT AMOUNT TO AVERAGE WEEKLY WAGE

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	0.347	0.346	0.344	0.356	0.348
1972	.356	.356	.355	.361	.357
1973	.354	.350	.343	.354	.350
1974	.349	.349	.358	.365	.355
1975	.352	.358	.366	.377	.363
1976	.363	.362	.356	.366	.362
1977	.358	.351	.347	.362	.354
1978	.360	.351	.345	.357	.353
1979	.350	.345	.345	.362	.351
1980	.350	.358	.359	.363	.357
1981	343	.346	.348	.363	.350
1982	.356	.362	.366	.377	.365
1983	.365	.364	.356	.357	.360
1984	.356	.355	.346	.357	.354
1985	.352	.350	.349	.359	.352
1986	.359	.361	.360	.363	.361
1987	.358	.358	.355	.357	.357
1988	.349	.344	.342	NA	NA

NA—Not available. Prepared by DOL/ETA/UIS/DAS.

TABLE 18.—NUMBER UNEMPLOYED 27 WEEKS OR LONGER AS A PERCENT OF ALL UNEMPLOYED (UNADJUSTED)

	First quarter	Second quarter	Third quarter	Fourth quarter
1971	8.7	11.1	11.0	10.8
1972	12.1	13.5	10.8	9.8
1973	8.6	8.5	7.0	7.4
1974	6.8	8.3	7.5	7.1
1975	8.7	14.8	18.7	19.1
1976	19.7	20.1	16.7	16.3
1977	15.5	16.5	13.6	12.9
1978	11.1	11.8	10.1	8.7
1979	9.0	9.5	8.1	8.3
1980	8.3	9.9	11.1	13.5
1981	15.3	15.0	13.7	12.3
1982	13.0	16.7	17.1	19.4
1983	23.2	26.3	23.8	21.9
1984	21.0	21.0	17.7	16.5
1985	15.8	16.4	14.7	14.7
1986	13.8	15.0	14.6	14.2
1987	14.0	15.1	13.9	12.9
1988	12.3	12.9	11.7	11.1

Source: U.S. Department of Labor.

TABLE 19.—CHANGES IN STATE RESERVES DURING THE 1980'S

State	Net reserves (millions) [1]		Reserve ratio (percent) [1]		High cost rate	High cost multiple
	1979	1987	1979	1987	1987 [1]	1987 [1]
U.S. total	$8,582	$22,865	0.91	1.38	2.24	0.62
Alabama	118	504	.98	2.46	2.17	1.13
Alaska	65	65	2.78	1.51	4.33	.35
Arizona	226	426	2.36	2.03	2.48	.82
Arkansas	24	101	.37	.93	2.69	.35
California	2,738	4,017	2.51	1.85	2.34	.79
Colorado	137	96	1.11	.39	1.26	.31
Connecticut	(267)	268	(2)	.84	3.29	.26
Delaware	(30)	141	(2)	2.79	2.70	1.03
District of Columbia	(44)	78	(2)	.97	1.84	.53
Florida	665	1,745	2.13	2.49	1.84	1.35
Georgia	447	803	2.28	1.88	2.13	.88
Hawaii	79	254	2.24	4.18	2.65	1.58
Idaho	93	126	3.20	2.92	3.17	.92
Illinois	(460)	314	(2)	.35	2.67	.13
Indiana	418	509	1.69	1.43	1.79	.80

TABLE 19.—CHANGES IN STATE RESERVES DURING THE 1980'S—Continued

State	Net reserves (millions) [1]		Reserve ratio (percent) [1]		High cost rate	High cost multiple
	1979	1987	1979	1987	1987 [1]	1987 [1]
Iowa	155	283	1.45	2.03	2.62	.77
Kansas	238	363	2.75	2.23	1.97	1.13
Kentucky	159	251	1.36	1.42	2.77	.51
Louisiana	238	1	1.51	(3)	3.08	(3)
Maine	0	138	0	2.23	2.84	.79
Maryland	273	556	1.83	1.88	2.19	.86
Massachusetts	132	1,097	.51	2.05	3.22	.64
Michigan	112	25	.25	.04	3.69	.01
Minnesota	70	155	.41	.52	1.96	.26
Mississippi	231	370	3.47	3.52	1.97	1.79
Missouri	296	366	1.47	1.09	1.98	.55
Montana	16	45	.64	1.14	3.03	.38
Nebraska	81	87	1.58	1.08	1.50	.72
Nevada	95	236	2.31	3.07	2.75	1.12
New Hampshire	82	165	2.42	2.13	2.51	.85
New Jersey	(507)	1,824	(2)	2.76	3.33	.83
New Mexico	80	120	2.14	1.81	1.64	1.11
New York	403	2,705	.51	1.83	2.50	.73
North Carolina	564	1,248	2.71	3.14	2.58	1.22
North Dakota	21	15	1.13	.57	2.34	.24
Ohio	513	214	1.02	.29	3.09	.09
Oklahoma	177	112	1.56	.65	1.37	.48
Oregon	320	427	3.00	2.79	3.21	.87
Pennsylvania	(1,091)	117	(2)	.16	3.37	.05
Puerto Rico	(33)	295	(2)	5.09	4.21	1.21
Rhode Island	(96)	216	(2)	3.44	4.37	.79
South Carolina	195	215	1.96	1.19	2.89	.41
South Dakota	16	43	.95	1.67	1.04	1.61
Tennessee	264	506	1.63	1.79	2.18	.82
Texas	396	(510)	.65	(2)	1.14	(2)
Utah	67	161	1.43	1.94	2.02	.96
Vermont	(21)	117	(2)	3.71	3.25	1.14
Virginia	103	607	.56	1.59	1.31	1.21
Virgin Islands	(7)	17	(2)	4.66	2.28	2.04
Washington	297	655	1.66	2.41	4.21	.57
West Virginia	39	65	.56	.77	4.00	.19
Wisconsin	465	404	2.37	1.35	2.57	.53
Wyoming	69	18	3.15	.65	3.03	.22

[1] Data are for end of calendar year. The reserve ratio is a State's trust fund balance at a point in time divided by its covered payroll for the prior 12 months. The high cost rate is the ratio of a State's benefit payments to its covered payroll for the 12-month period during which this ratio was at its highest level. The high cost multiple (sometimes called the "reserve ratio multiple") is a State's reserve ratio divided by its high cost rate.

[2] Account balance was in deficit.

[3] Less than 0.005.

Source: U.S. Congress, House of Representatives, Committee on Ways and Means. Federal-State Unemployment Compensation System. WMCP 100–39. Washington: U.S. Government Printing Office, Sept. 8, 1988, 283.

TABLE 20.—UNEMPLOYMENT TRUST FUND RESERVE RATIOS, BY STATE, FOR SELECTED YEARS 1947–86

[In percent]

State	1947	1960	1970	1975	1979	1980	1982	1986
U.S. total	8.44	3.29	3.11	0.53	0.91	0.62	−0.24	0.98
Alabama	6.47	2.58	2.96	0	.98	.64	.06	2.38
Alaska	10.92	0	5.51	3.07	2.78	3.35	2.94	2.25
Arizona	9.50	5.38	4.25	1.35	2.36	2.40	1.66	1.99
Arkansas	9.11	4.08	2.26	.04	.37	0	0	.96
California	9.77	3.80	2.91	.88	2.51	2.46	1.83	1.73
Colorado	9.59	3.73	2.54	.70	1.11	.89	0	.36
Connecticut	10.91	4.49	3.38	0	0	0	0	.64
Delaware	5.95	1.79	1.72	0	0	0	0	1.97
District of Columbia	8.21	5.70	3.22	0	0	0	0	.95
Florida	8.20	2.67	2.60	.42	2.13	2.18	1.89	2.36
Georgia	9.06	5.06	4.74	2.28	2.28	2.14	1.49	1.75
Hawaii	8.97	4.16	2.90	.23	2.24	2.61	2.43	3.52
Idaho	10.35	6.02	5.16	3.21	3.20	2.85	.85	2.39
Illinois	7.05	2.52	1.55	0	0	0	0	0
Indiana	7.72	3.04	3.13	1.31	1.69	.90	.23	1.30
Iowa	9.51	5.78	3.19	.96	1.45	1.00	0	1.10
Kansas	10.08	4.68	3.00	2.65	2.75	2.34	1.29	2.14
Kentucky	12.34	5.52	4.21	1.95	1.36	.29	0	.91
Louisiana	9.23	5.11	2.91	1.58	1.51	1.19	0	0
Maine	10.05	3.74	2.86	0	0	0	0	1.73
Maryland	9.14	2.24	3.26	.29	1.83	2.38	1.11	1.88
Massachusetts	4.95	3.22	3.04	0	0	.88	1.23	1.96
Michigan	5.06	0	2.49	0	.25	0	0	0
Minnesota	8.51	1.96	1.76	0	.41	0	0	.20
Mississippi	11.96	3.59	3.87	2.25	3.47	3.33	3.12	3.76
Missouri	8.66	4.45	3.03	.75	1.47	.58	0	1.04
Montana	12.07	5.51	3.33	.57	0	.63	.27	.79
Nebraska	8.48	4.04	2.87	.84	1.58	1.43	1.14	1.03
Nevada	11.82	4.26	3.20	.22	2.31	2.79	2.02	2.87
New Hampshire	9.21	4.06	4.62	1.56	2.42	2.19	1.60	1.95

TABLE 20.—UNEMPLOYMENT TRUST FUND RESERVE RATIOS, BY STATE, FOR SELECTED YEARS 1947–86—Continued

[In percent]

State	1947	1960	1970	1975	1979	1980	1982	1986
New Jersey	12.89	4.13	2.76	0	0	0	0	2.02
New Mexico	8.57	5.84	3.45	1.61	2.14	2.25	1.98	1.79
New York	8.19	3.81	3.76	1.02	.51	.58	.78	1.57
North Carolina	10.80	5.75	5.22	2.71	2.[illegible]1	2.64	1.52	2.99
North Dakota	7.81	2.67	2.53	1.94	1.13	.88	.46	0
Ohio	8.68	2.42	3.01	.91	1.02	0	0	0
Oklahoma	6.70	2.26	1.69	.46	1.56	1.44	.62	.42
Oregon	8.89	2.59	3.39	.40	3.00	3.05	1.37	2.19
Pennsylvania	7.90	0	3.53	0	0	0	0	0
Puerto Rico	0.00	0	4.90	0	0	0	0	3.47
Rhode Island	11.15	3.41	4.34	0	0	0	0	2.28
South Carolina	8.38	5.17	4.61	1.61	1.96	1.76	.40	.77
South Dakota	7.57	5.00	3.81	1.96	.95	.61	.43	1.61
Tennessee	9.35	2.87	3.57	1.95	1.63	1.18	.08	1.61
Texas	6.57	3.20	1.90	.71	.65	.38	0	0
Utah	11.23	4.68	3.55	1.22	1.43	1.19	.16	2.01
Vermont	10.60	4.53	3.72	0	0	0	0	2.44
Virginia	7.32	3.17	3.41	1.08	.56	.33	.06	1.48
Virgin Islands	NA	NA	NA	NA	0	0	0	2.80
Washington	9.98	6.56	3.73	0	1.66	1.84	.70	1.38
West Virginia	7.41	2.26	4.07	1.70	.56	0	0	0
Wisconsin	10.71	5.04	4.29	.99	2.37	1.29	0	.24
Wyoming	8.38	3.95	4.29	3.02	3.15	2.83	1.48	1.44

Note: NA denotes not applicable.

Source: U.S. Congress, House of Representatives, Committee on Ways and Means. Federal-State Unemployment Compensation System. WMCP 100–39. Washington: U.S. Government Printing Office, Sept. 8, 1988, 135.

TABLE 21.—STATE TAXABLE WAGE BASES, END OF YEAR

State	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Alabama	$6,600	$6,600	$6,600	$6,600	$6,600	$8,000	$8,000	$8,000	$8,000	$8,000	$8,000
Alaska	10,000	10,000	10,000	13,300	14,600	20,200	21,400	21,800	21,600	21,500	21,100
Arizona	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Arkansas	6,000	6,000	6,000	6,900	6,900	7,500	7,500	7,500	7,500	7,500	7,500
California	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Colorado	6,000	6,000	6,000	6,000	6,000	7,000	8,000	8,000	8,000	9,000	10,000
Connecticut	6,000	6,000	6,000	6,000	7,000	7,100	7,100	7,100	7,100	7,100	7,100
Delaware	6,000	6,000	6,000	6,000	6,600	7,200	8,000	8,000	8,250	8,500	8,500
District of Columbia	6,000	6,000	6,000	6,000	7,500	8,000	8,000	8,000	8,000	8,000	8,000
Florida	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Georgia	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,500	7,500	7,500
Hawaii	9,800	10,400	11,200	12,200	13,100	13,800	14,600	15,100	15,600	16,500	8,700
Idaho	9,600	10,200	10,800	12,000	13,200	14,400	14,400	15,000	15,600	16,200	16,200
Illinois	6,000	6,000	6,500	6,500	7,000	8,000	8,000	8,500	8,500	8,500	9,000
Indiana	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Iowa	6,500	6,900	7,400	8,000	8,700	9,400	10,400	11,200	12,000	12,300	11,000
Kansas	6,000	6,000	6,000	6,000	6,000	7,000	8,000	8,000	8,000	8,000	8,000
Kentucky	6,000	6,000	6,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Louisiana	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	8,500
Maine	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Maryland	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Massachusetts	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Michigan	6,000	6,000	6,000	6,000	6,000	8,000	8,500	9,000	8,500	9,500	9,500

Minnesota	7,500	8,000	8,000	8,000	8,300	9,000	9,800	10,300	10,700	11,200	11,700
Mississippi	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Missouri	6,000	6,000	6,000	6,000	6,600	7,000	7,000	8,000	8,000	7,500	7,000
Montana	6,000	7,400	7,600	7,800	8,000	8,200	8,400	8,600	12,200	12,400	12,600
Nebraska	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Nevada	6,900	7,400	7,900	8,400	9,300	10,200	10,700	11,100	11,400	11,700	12,100
New Hampshire	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
New Jersey	6,200	6,600	6,900	7,500	8,200	8,800	9,600	10,100	10,700	11,300	12,000
New Mexico	6,100	6,600	7,200	8,000	8,500	9,300	9,800	10,000	10,300	10,700	10,800
New York	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
North Carolina	6,000	6,000	6,000	6,000	6,000	7,000	8,200	8,700	9,200	9,600	10,100
North Dakota	6,000	7,000	7,600	8,400	9,240	10,150	10,400	10,700	10,800	10,800	11,000
Ohio	6,000	6,000	6,000	6,000	6,000	7,000	8,000	8,000	8,000	8,000	8,000
Oklahoma	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	8,900	9,100	9,100
Oregon	8,000	9,000	10,000	10,000	11,000	12,000	13,000	13,000	14,000	14,000	14,000
Pennsylvania	6,000	6,000	6,000	6,300	6,600	7,000	8,000	8,000	8,000	8,000	8,000
Puerto Rico	Total	Total	Total	Total	Total	Total	Total	7,000	7,000	7,000	7,000
Rhode Island	6,000	6,000	7,200	7,800	8,600	9,200	10,000	10,600	11,000	11,400	12,000
South Carolina	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
South Dakota	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Tennessee	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Texas	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	8,000

TABLE 21.—STATE TAXABLE WAGE BASES, END OF YEAR—Continued

State	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Utah	9,600	10,400	11,000	12,000	12,000	12,000	13,300	12,100	12,600	12,900	13,200
Vermont	6,000	6,000	6,000	6,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000
Virginia	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000
Virgin Islands	6,000	6,000	6,000	6,000	8,000	8,000	8,000	14,000	14,500	14,000	16,500
Washington	8,400	9,000	9,600	10,200	10,800	11,400	12,000	10,000	11,500	13,200	15,100
West Virginia	6,000	6,000	6,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Wisconsin	6,000	6,000	6,000	6,000	6,000	8,000	9,500	9,500	10,500	10,500	10,500
Wyoming	6,000	6,000	6,000	6,000	6,000	7,000	9,900	9,500	9,900	10,300	10,200
United States	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000

Source: U.S. Congress, House of Representatives, Committee on Ways and Means. Federal-State Unemployment Compensation System. WMCP 100–39. Washington: U.S. Government Printing Office, September 8, 1988, 169.

TABLE 22.—UNEMPLOYMENT COMPENSATION RATIO OF TAXABLE TO TOTAL WAGES, BY STATE, FOR SELECTED YEARS 1947–86

[In percent]

State	1947	1960	1970	1975	1980	1982	1986
U.S. total	0.84	0.61	0.48	0.45	0.45	0.40	0.41
Alabama	.91	.67	.51	.50	.51	.46	.46
Alaska	.91	.87	.68	.61	.50	.47	.68
Arizona	.89	.62	.54	.47	.46	.41	.40
Arkansas	.92	.74	.58	.55	.52	.51	.48
California	.83	.65	.51	.42	.42	.36	.35
Colorado	.86	.62	.46	.45	.44	.38	.41
Connecticut	.85	.59	.45	.52	.40	.38	.32
Delaware	.80	.61	.47	.39	.38	.36	.40
District of Columbia	.82	.60	.43	.41	.39	.39	.35
Florida	.88	.67	.50	.50	.50	.44	.43
Georgia	.88	.69	.51	.49	.47	.41	.41
Hawaii	.89	.69	.68	.66	.68	.70	.69
Idaho	.90	.67	.57	.50	.67	.69	.69
Illinois	.81	.56	.41	.40	.41	.39	.38
Indiana	.86	.59	.44	.43	.41	.38	.37
Iowa	.88	.63	.46	.45	.50	.51	.58
Kansas	.88	.63	.48	.48	.45	.40	.48
Kentucky	.90	.65	.49	.47	.45	.49	.44
Louisiana	.87	.64	.48	.46	.45	.38	.40
Maine	.91	.70	.52	.54	.51	.46	.44
Maryland	.87	.63	.46	.44	.43	.37	.37
Massachusetts	.85	.62	.50	.44	.46	.42	.38
Michigan	.83	.54	.46	.38	.37	.33	.39
Minnesota	.85	.59	.59	.48	.51	.46	.47
Mississippi	.92	.74	.57	.56	.53	.46	.46
Missouri	.84	.60	.44	.44	.43	.40	.41
Montana	.90	.67	.52	.54	.63	.62	.71
Nebraska	.86	.65	.49	.46	.46	.42	.42
Nevada	.87	.71	.56	.59	.59	.57	.59
New Hampshire	.91	.70	.51	.52	.48	.42	.41
New Jersey	.84	.57	.48	.45	.45	.44	.46
New Mexico	.91	.65	.51	.52	.54	.54	.55
New York	.79	.57	.41	.40	.39	.34	.32
North Carolina	.91	.73	.54	.53	.50	.44	.52
North Dakota	.88	.68	.59	.46	.55	.56	.57
Ohio	.84	.56	.42	.41	.40	.36	.39
Oklahoma	.86	.64	.49	.48	.43	.37	.46
Oregon	.87	.73	.53	.52	.61	.59	.63

TABLE 22.—UNEMPLOYMENT COMPENSATION RATIO OF TAXABLE TO TOTAL WAGES, BY STATE, FOR SELECTED YEARS 1947–86—Continued

[In percent]

State	1947	1960	1970	1975	1980	1982	1986
Pennsylvania	.86	.60	.50	.43	.42	.40	.40
Puerto Rico	.00	.00	.68	1.00	1.00	1.00	.59
Rhode Island	.87	.74	.55	.53	.54	.55	.55
South Carolina	.92	.74	.54	.54	.50	.45	.44
South Dakota	.89	.67	.51	.53	.50	.45	.46
Tennessee	.89	.68	.54	.46	.48	.43	.41
Texas	.86	.63	.48	.47	.44	.38	.38
Utah	.88	.62	.60	.48	.65	.62	.58
Vermont	.91	.69	.55	.51	.50	.44	.47
Virginia	.89	.67	.51	.49	.48	.41	.39
Virgin Islands	NA	NA	NA	NA	.54	.34	.78
Washington	.87	.60	.44	.58	.56	.55	.53
West Virginia	.87	.60	.51	.43	.42	.47	.42
Wisconsin	.85	.58	.51	.43	.42	.34	.50
Wyoming	.89	.66	.58	.49	.44	.38	.51

Note: NA denotes not applicable.

Source: U.S. Congress, House of Representatives, Committee on Ways and Means. Federal-State Unemployment Compensation System. WMCP 100–39. Washington: U.S. Government Printing Office, Sept. 8, 1988, 146.

TABLE 23.—WEEKLY UC REPLACEMENT RATES UNDER ALTERNATIVE TAX TREATMENTS OF UC AND EARNINGS BY STATE FOR LOW-WAGE AND HIGH-WAGE EARNERS [1] [2]

	After-tax benefits/after-tax earnings	Pre-tax benefits/pre-tax earnings	Pre-tax benefits/after-tax earnings
Low-wage earner			
Massachusetts	0.80	0.73	0.74
Illinois	.77	.70	.71
Michigan	.76	.69	.70
Kentucky	.75	.69	.70
Oregon	.71	.65	.66
Rhode Island	.71	.65	.65
Connecticut	.70	.64	.64
Iowa	.68	.62	.63
District of Columbia	.67	.61	.62
New Jersey	.66	.60	.61
Delaware	.66	.60	.61
Colorado	.66	.60	.61
Maryland	.66	.60	.60

TABLE 23.—WEEKLY UC REPLACEMENT RATES UNDER ALTERNATIVE TAX TREATMENTS OF UC AND EARNINGS BY STATE FOR LOW-WAGE AND HIGH-WAGE EARNERS [1] [2]—Continued

	After-tax benefits/after-tax earnings	Pre-tax benefits/pre-tax earnings	Pre-tax benefits/after-tax earnings
Maine	.65	.59	.60
Missouri	.64	.59	.59
Vermont	.64	.58	.59
Pennsylvania	.62	.56	.57
Indiana	.61	.56	.57
Kansas	.61	.55	.56
Alaska	.60	.55	.55
Alabama	.60	.54	.55
Nebraska	.59	.54	.54
New Hampshire	.59	.53	.54
Louisiana	.58	.52	.53
Wyoming	.57	.52	.53
West Virginia	.57	.52	.53
Washington	.57	.52	.53
Virginia	.57	.52	.53
Texas	.57	.52	.53
Oklahoma	.57	.52	.53
Nevada	.57	.52	.53
Hawaii	.57	.52	.53
Georgia	.57	.52	.53
Arizona	.57	.52	.53
Wisconsin	.55	.50	.51
Utah	.55	.50	.51
South Dakota	.55	.50	.51
South Carolina	.55	.50	.51
Ohio	.55	.50	.51
North Carolina	.55	.50	.51
New York	.55	.50	.51
New Mexico	.55	.50	.51
Mississippi	.55	.50	.51
Minnesota	.55	.50	.51
Idaho	.55	.50	.51
Florida	.55	.50	.51
Arkansas	.55	.50	.51
Montana	.54	.49	.50
California	.50	.45	.46
Tennessee	.48	.44	.44
North Dakota	.44	.40	.41

TABLE 23.—WEEKLY UC REPLACEMENT RATES UNDER ALTERNATIVE TAX TREATMENTS OF UC AND EARNINGS BY STATE FOR LOW-WAGE AND HIGH-WAGE EARNERS [1] [2]—Continued

	After-tax benefits/after-tax earnings	Pre-tax benefits/pre-tax earnings	Pre-tax benefits/after-tax earnings
High-wage earner			
Massachusetts	.37	.33	.41
Pennsylvania	.34	.30	.37
Minnesota	.32	.29	.36
District of Columbia	.32	.29	.36
Ohio	.32	.29	.35
Connecticut	.32	.29	.35
Michigan	.31	.28	.35
New Jersey	.31	.28	.34
Rhode Island	.31	.27	.34
Illinois	.30	.27	.33
West Virginia	.29	.26	.32
Hawaii	.29	.26	.32
Oregon	.29	.26	.32
Colorado	.28	.25	.30
Texas	.27	.24	.30
Maryland	.27	.24	.30
Washington	.27	.24	.29
Louisiana	.27	.24	.29
Delaware	.26	.24	.29
North Carolina	.26	.24	.29
Kansas	.26	.24	.29
Arkansas	.26	.24	.29
Utah	.26	.23	.29
Florida	.26	.23	.29
Wisconsin	.26	.23	.29
Wyoming	.26	.23	.28
Oklahoma	.25	.23	.28
Idaho	.24	.22	.27
Alaska	.24	.22	.27
Montana	.23	.21	.26
New York	.23	.21	.26
Iowa	.23	.21	.26
North Dakota	.23	.21	.25
Nevada	.23	.21	.25
Maine	.23	.20	.25
Virginia	.22	.19	.24
California	.21	.19	.24
Vermont	.21	.19	.23

TABLE 23.—WEEKLY UC REPLACEMENT RATES UNDER ALTERNATIVE TAX TREATMENTS OF UC AND EARNINGS BY STATE FOR LOW-WAGE AND HIGH-WAGE EARNERS [1] [2]—Continued

	After-tax benefits/after-tax earnings	Pre-tax benefits/pre-tax earnings	Pre-tax benefits/after-tax earnings
New Mexico	.21	.18	.23
New Hampshire	.20	.18	.22
Georgia	.20	.18	.22
Kentucky	.20	.18	.22
Tennessee	.19	.17	.21
South Dakota	.18	.16	.20
Missouri	.18	.16	.20
Arizona	.17	.16	.19
Nebraska	.17	.16	.19
South Carolina	.17	.15	.19
Mississippi	.17	.15	.19
Indiana	.17	.15	.18
Alabama	.16	.14	.17

[1] Worker is assumed to be married, with a nonworking spouse, and two children. Dependents' allowances are included where applicable. Worker is assumed to be jobless for one-fourth of the year. Low-wage worker is defined as having annual earnings of $11,400 a year, or an hourly wage rate of $5.50. High-wage worker is defined as having annual earnings of $44,812, four times the 1986 poverty threshold for a family of four. Federal income taxes and social security payroll taxes are calculated at 1988 rates. All calculations were first made on an annual basis and then divided by 52 to convert to weekly replacement rates. UC benefit levels are those available in January 1988.

[2] Puerto Rico and the Virgin Islands are excluded because they do not pay U.S. Federal income taxes. However, UC benefits are taxable in those jurisdictions under the applicable tax rates, which would be analogous to State income tax laws in the 50 States.

Source: U.S. Congress, House of Representatives, Committee on Ways and Means. Federal-State Unemployment Compensation System. WMCP 100–39. Washington: U.S. Government Printing Office, Sept. 8, 1988, 220.

CHANGES IN REAL EARNINGS BETWEEN 1973 AND 1986

Table 24 displays mean annual earnings in 1973 and 1986 by selected groups. The data were tabulated from the Bureau of Census' Current Population Survey micro data files. In general, mean annual earnings adjusted for inflation have dropped dramatically for men while they have increased markedly for women. For men, those who lost the most were 25 to 34 years old and without college degrees. Male high school graduates without college degrees lost 21 percent in real average earnings since 1973. For women, those who gained the most were 35 to 44 years old with college degrees. Their real average earnings were up 38 percent. However, the real average annual earnings of women still were well below that of men in every category.

TABLE 24.—REAL AVERAGE EARNINGS BY AGE, SEX, AND EDUCATION LEVEL COMPLETED: 1973 AND 1986

Age, education level completed	Mean annual earnings (1987 dollars) 1973	Mean annual earnings (1987 dollars) 1986	Percent change
Men, 25–34:			
High school	$24,644	$19,387	−21
College	28,569	28,792	1
Men, 35–44:			
High school	28,461	24,992	−12
College	42,266	37,728	−11
Men, 45–55:			
High school	29,353	24,922	−8
College	44,332	42,696	−4
Women, 25–34:			
High school	9,599	11,182	16
College	14,561	18,924	30
Women, 35–44:			
High school	10,697	12,570	18
College	14,564	20,050	38
Women, 45–55:			
High school	11,967	13,199	10
College	18,439	19,503	6

Note: Data include men and women who worked at least one hour during the year. The college category excludes people with post-graduate education.

Source: Litan, Robert E., Robert Z. Lawrence, and Charles L. Schultze, "Improving American Living Standards," The Brookings Review (Washington, Winter 1988/89), vol. 7, no. 1, p. 27.

THE RELATIVE CHANGE IN THE EARNINGS DISTRIBUTION OF AMERICAN JOBS FROM 1979 TO 1987

A recent study by the staff of the Senate Committee on the Budget entitled, "Wages of American Workers in the 1980s," showed low-wage jobs (below a poverty wage of $11,611 annually for a family of four) have grown dramatically relative to middle-wage and high-wage jobs since 1979. Half of the 11.8 million payroll jobs created between 1979 and 1987 were low-wage jobs. Moreover, the share of low-wage jobs for many groups of workers and regions of the country has increased while the share of middle-wage jobs has dropped.

The data used in the study are from the Bureau of Census' Current Population Surveys for 1979 and 1987. Poverty levels for 1987 were deflated using the CPI-X1 deflator to obtain the 1979 values. Wages were based on wage and salary income. Low-wage jobs were defined as those providing income from working full-time, year-round that was lower than the poverty level for a family of four in 1987 of $11,611 and $7,564 in 1979. This compares to an official poverty level of $7,412.

Chart 1

Change in the Earnings Distribution of American Jobs
Year-round, Full-time Workers, 1979 to 1987

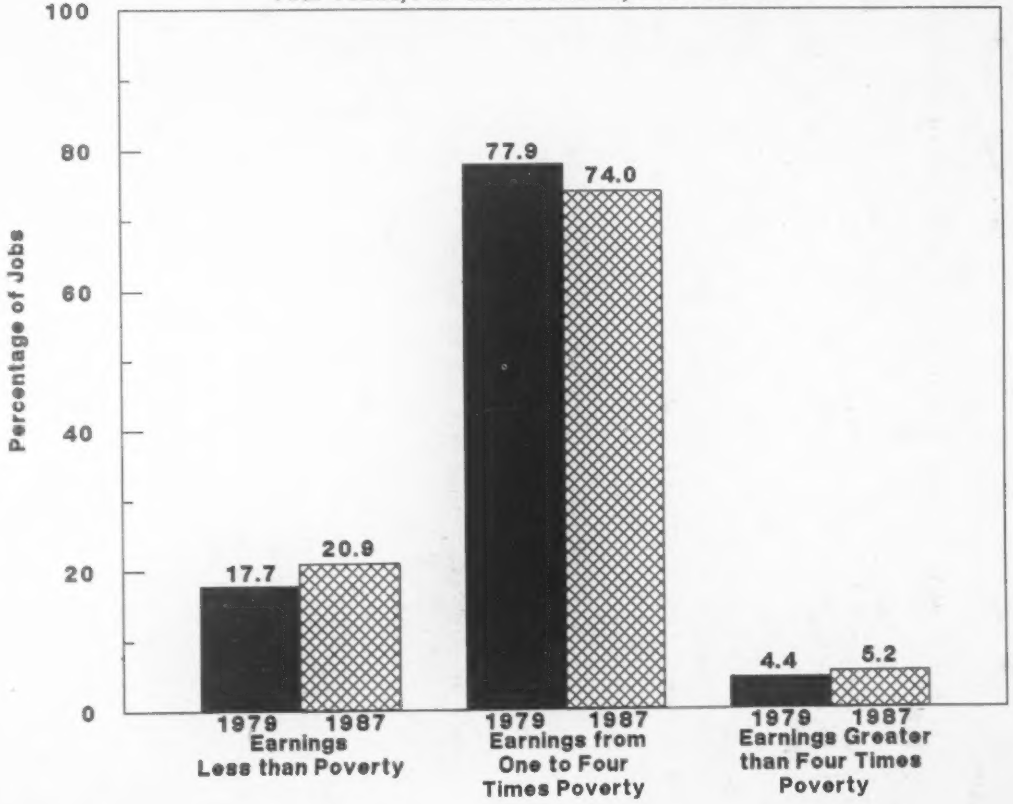

Table 25 shows the relative increase in low-wage jobs during the 1980s.

—For year-round, full-time workers, the share of low wage jobs jumped by 3.2 percentage points while the share of middle-wage ($11,612 to $46,444 in 1987 and $7,565 to $30,254 in 1979) jobs dropped by 4.0 pecentage points. The share of high-wage ($46,445 in 1987 and $30,255 in 1979) jobs rose by 0.8 percentage points (see chart 1).

—For workers under 35 years old, the share of low wage jobs increased by 4.7 percentage points while the share of middle-wage jobs fell by 4.8 percentage points.

—For men the share of low-wage jobs jumped 4.2 percentage points while the share of middle-wage jobs declined by 5.4 percentage points.

—For women the share of low-wage jobs dropped by 1.7 percentage points while the share of middle-wage jobs increased by 1.2 percentage points.

—Non-white and white workers experienced increases in the shares of low-wage jobs of 1.2 and 1.8 percentage points, respectively.

—Only the New England and Atlantic States escaped this trend. The share of low-range jobs plummeted by 5.6 percentage points in New England while the share of middle-wage jobs increased by 3.8 percentage points. The Atlantic States had gains in the share of high-wage jobs at the expense of middle- and low-wage jobs.

—All other regions experienced substantial increases in the share of low-wage jobs at the expense of losses in the share of middle-wage jobs. The East South Central and East North Central States were the hardest hit in the redistribution of jobs from middle- to low-wages.

A list of the States in each region follows:

New England—Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

Mid-Atlantic—New Jersey, New York, and Pennsylvania.

East North Central—Indiana, Illinois, Ohio, Michigan, and Wisconsin.

West North Central—Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

South Atlantic—Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia.

East South Central—Alabama, Kentucky, Mississippi, and Tennessee.

West South Central—Arkansas, Louisiana, Oklahoma, and Texas.

Mountain—Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming.

Pacific—Alaska, California, Hawaii, Oregon, and Washington.

TABLE 25.—CHANGES IN THE EARNINGS DISTRIBUTIONS OF AMERICAN JOBS FROM 1979 TO 1987

Groups of workers	Percent of employment within groups		Difference
	1979	1987	(1987 minus 1979)
Year-round, full-time:			
Low-wage (less than $11,611 in 1987)	17.7	20.9	+3.2
Middle-wage ($11,612 to $46,444 in 1987)	77.9	74.0	−4.0
High-wage ($46,445 and above in 1987)	4.4	5.2	+0.8
Part-time seasonal:			
Low-wage	51.1	54.5	+3.4
Middle-wage	46.1	42.1	−4.1
High-wage	2.7	3.4	+0.7
Under 35 years old:			
Low-wage	39.4	44.2	+4.7
Middle-wage	59.0	54.2	−4.8
High-wage	1.5	1.6	+0.1
Over 34 years old:			
Low-wage	24.3	24.3	0.0
Middle-wage	69.6	68.4	−1.2
High-wage	6.1	7.3	+1.2
Males:			
Low-wage	22.3	26.5	+4.2
Middle-wage	72.1	66.6	−5.4
High-wage	5.6	6.9	+1.3
Females:			
Low-wage	44.6	42.9	−1.7
Middle-wage	54.2	55.4	+1.2
High-wage	1.3	1.8	+0.5
Non-white:			
Low-wage	40.5	41.7	+1.2
Middle-wage	57.8	56.0	−1.8
High-wage	1.7	2.3	+0.6
White:			
Low-wage	31.2	33.0	+1.8
Middle-wage	64.8	62.2	−2.6
High-wage	4.0	4.8	+0.9
Manufacturing Industry:			
Low-wage	21.1	22.7	+1.6
Middle-wage	75.0	71.7	−3.3
High-wage	4.0	5.6	+1.7
Service Industry:			
Low-wage	40.3	41.1	+0.8
Middle-wage	56.4	54.8	−1.6
High-wage	3.3	4.1	+0.8
New Engl States:			
Low-wage	32.2	26.5	−5.6
Middle-wage	64.1	67.9	+3.8
High-wage	3.7	5.6	+1.8

TABLE 25.—CHANGES IN THE EARNINGS DISTRIBUTIONS OF AMERICAN JOBS FROM 1979 TO 1987—Continued

Groups of workers	Percent of employment within groups		Difference
	1979	1987	(1987 minus 1979)
Mid-Atlantic States:			
Low-wage	28.0	27.6	−0.4
Middle-wage	68.0	66.5	−1.5
High-wage	4.1	5.9	+1.8
East North Central States:			
Low-wage	28.8	33.8	+5.0
Middle-wage	67.6	62.1	−5.5
High-wage	3.6	4.1	+0.5
West North Central States:			
Low-wage	35.1	37.4	+2.2
Middle-wage	62.1	59.7	−2.4
High-wage	2.8	2.9	+0.2
South Atlantic States:			
Low-wage	37.0	36.5	−0.1
Middle-wage	59.9	59.5	−0.4
High-wage	3.0	4.0	+1.0
East South Central States:			
Low-wage	39.9	45.1	+5.2
Middle-wage	57.7	52.6	−5.1
High-wage	2.4	2.3	−0.1
West South Central States:			
Low-wage	37.6	39.8	+2.2
Middle-wage	58.9	56.6	−2.3
High-wage	3.5	3.5	−0.0
Mountain States:			
Low-wage	34.1	37.1	+3.0
Middle-wage	61.7	59.0	−2.7
High-wage	4.2	3.9	−0.3
Pacific States:			
Low-wage	28.0	30.7	+2.8
Middle-wage	67.1	63.2	−4.0
High-wage	4.9	6.1	+1.2

Note: In 1987, low-wage earnings were defined as less than $11,611—the 1987 poverty level for a family of 4. For 1979, the corresponding value was $7,564, deflated using the CPI–X1. Middle-wage earnings were defined as 1 to 4 times the poverty level for a family of 4: $11,611–$46,444 in 1987, and $7,564–$30,254 in 1979. High-wage earnings were defined as greater than 4 times the poverty level for a family of 4: $46,445 or greater in 1987, and $30,255 or greater in 1979.

Source: U.S. Congress, Senate Committee on the Budget, "Wages of American Workers in the 1980's." Washington: U.S. Government Printing Office, September, 1988.

Section 7. Aid to Families With Dependent Children (Title IV–A)

ELIGIBILITY

Aid to dependent children (ADC) was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers. Renamed Aid to Families With Dependent Children (AFDC), the program provides cash welfare payments for needy children (and their mothers or other caretaker relatives), who have been deprived of parental support or care because their father or mother is absent from home continuously (85.2 percent of the children), is incapacitated (3.2 percent), is deceased (1.9 percent), or is unemployed (7.4 percent).[1]

States define "need," set their own benefit levels, establish (within Federal limitations) income and resource limits, and administer the program or supervise its administration. All States, the District of Columbia, Guam, Puerto Rico, American Samoa and the Virgin Islands offer AFDC to needy children without able-bodied fathers at home, and 31 jurisdictions also offer Federal cash supplements to children in two-parent families who are needy because of the unemployment of one of their parents (Aid to Families With Dependent Children of Unemployed Parents (AFDC–UP)). Wyoming's program was first effective November 1, 1988; American Samoa's was first effective October 1, 1988. Eligibility for AFDC on the basis of a parent's unemployment is limited to those families in which the principal wage earner is unemployed.

Eligibility for federally aided AFDC ends on a child's 18th birthday, or at State option upon a child's 19th birthday if the child is a full-time student in a secondary or technical school and may reasonably be expected to complete the program before he or she reaches age 19. Before passage of the Omnibus Budget Reconciliation Act (OBRA) of 1981, Public Law 97–35, a State could continue benefits through age 20 for students.

Federal law requires certain able-bodied recipients, including mothers whose youngest child is at least 6 years old, to register for work or job training. States may require work registrants to participate in one of several work programs: Work Incentive (WIN) Program; Community Work Experience Program (CWEP), Work Supplementation, or Job Search. These education and training requirements will be expanded and modified under the JOBS program created by the newly enacted Family Support Act of 1988 (Public Law 100–485), described later in this section.

In 1981, Congress required that a portion of the income of a stepparent be counted in determining AFDC eligibility and benefit amounts. In 1984, a standard definition of the AFDC assistance unit was established for the first time. Under this requirement, the parent(s) in the home and all minor related children are to be included in the AFDC unit, with eligibility and benefits based on the income and circumstances of this family unit. SSI recipients and stepbrothers and stepsisters are excluded from this requirement and the first $50 of monthly child support received by the unit is disregarded when determining eligibility and benefits. In addition, if a minor who is living in the same home as her parents applies for aid as the parent of a needy child, the income of the minor's parents is to be counted as available to the filing unit.

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[1] Based on the 1986 HHS quality control case sample.

Finally, Federal law requires AFDC mothers to assign their child support rights to the State and to cooperate with welfare officials in establishing the paternity of a child born outside of marriage and in obtaining support payments from the father. Cash aid is also provided for foster care of AFDC-eligible children removed from their homes by judicial order and, under certain conditions, for those *voluntarily placed* in foster care.

TREATMENT OF EARNINGS

States are required by Federal law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. Before OBRA, in order to provide a financial incentive for recipients to seek and maintain employment, Federal law required the deduction of an initial $30 in monthly earnings plus one-third of remaining earnings, plus work expenses (any expenses, including child care costs, reasonably attributable to the earning of income). When making an initial determination of eligibility, however, only work expenses were disregarded.

Amendments in OBRA changed the order in which the disregards were applied, limited the disregard for work expenses to $75 per month, capped the child care disregard at $160 per month per child, and specified that the HHS Secretary could lower these sums for part-time work. The $30 plus one-third disregard was limited to a period of 4 consecutive months; recipients who left AFDC and then returned could not again qualify for this disregard for 12 months. States were prohibited from paying AFDC to any family with a *gross* income above 150 percent of the State's standard of need and were required to assume that working AFDC recipients received a monthly earned income tax credit (EITC), if they appeared eligible for it and regardless of when or if the credit was actually available. Under prior law, the EITC was counted only when received; most AFDC recipients did not receive the EITC on a monthly basis. These changes substantially reduced the amount of earnings a recipient could have and remain eligible for an AFDC payment.

In 1984, Congress further revised these disregards. The gross income limit was increased to 185 percent of the State standard of need, the work expense disregard of $75 per month was applied to both full- and part-time 6 workers, and the $30 disregard—originally a part of $30 and one-third—was extended for an additional 8 months beyond the 4-month limit on the one-third deduction. The 1984 legislation also returned to prior law policy with respect to the earned income tax credit: it is to be counted only when actually received.

Table 1 illustrates the impact of the 1981 and 1984 changes on a mother with two children working full-time at the minimum wage. The need and payment standard are assumed to be $420 per month, roughly equivalent to the payment level in a high benefit State or $364 per month, the maximum payment level in the median State for a family of three in January 1989.

TABLE 1.—CALCULATION OF BENEFITS FOR A FULL-TIME MINIMUM WAGE WORKER UNDER PRE-OBRA, OBRA, AND CURRENT LAW

	Pre-OBRA	OBRA		Current law (DEFRA)		
		First 4 months	After 4 months	First 4 months	After 4 months	After 12 months
Income:						
Gross earnings	581	581	581	581	581	581
EITC		+32	+32			
Gross income	581	613	613	581	581	581
Disregards:						
Initial disregards [1]	−30	−105	−75	−105	−105	−75
One-third of rest	−194	(2)	(2)	(2)	(2)	(2)
Child care	−100	−100	−100	−100	−100	−100
One-third of rest	(2)	−136	0	−125	0	0
Other expenses	[3] −70	(2)	(2)	(2)	(2)	(2)
Total disregards	394	341	175	330	205	175
Net countable income	187	272	438	251	376	406
AFDC benefits:						
$420 payment standard	233	148	0	169	44	14
$364 payment standard	177	92	0	113	0	0

[1] Pre-OBRA: $30 disregard. OBRA: Standard work expense deduction of $75 plus $30 in first 4 months. New Law: Standard work expense deduction of $75 plus $30 disregard in first 12 months.

[2] Not applicable.

[3] Itemized work expenses including payroll deductions and transportation.

The Family Support Act of 1988 revises the treatment of earned income effective October 1, 1989 (see detailed discussion of the act below, "The Family Support Act of 1988").

MONTHLY REPORTING AND RETROSPECTIVE BUDGETING

AFDC eligibility and benefits are determined monthly. Public Law 97-35 required States to determine eligibility on the basis of the family's circumstances in the current month; payment amounts were to be determined "retrospectively"—on the basis of the family's countable income and resources in the preceding month (or, at the discretion of the Secretary of Health and Human Services, the second preceding month). In addition, States were to require recipients to provide monthly reports on income, family composition, and resources. However, the Secretary could waive this requirement if the State demonstrated that it would be cost-beneficial to do so.

The only categories of recipients that could not be exempted were those with earned income or a recent work history.

In 1984, Public Law 98-369 revised these monthly reporting and retrospective budgeting requirements. Retrospective budgeting is now mandatory only for cases which file a monthly report. Monthly reporting is required for cases with earned income or a recent work history and whenever cost effective.

WORK REQUIREMENTS AND PROGRAMS

As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a work incentive (WIN) program site, the need to care for an ill or incapacitated member of the household, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

Work registration is one component of the work incentive (WIN) program. All States operate a WIN program or a WIN demonstration program. In addition, the act permits States to offer several other employment programs. These are: job search; the community work experience program, and work supplementation. Some States are also operating grant diversion programs and other innovative work programs under AFDC demonstration authority.

Public Law 100-485, the Family Support Act of 1988, revises the education and training requirements of the AFDC Program. The new work, education, and training program is called JOBS and replaces WIN and WIN demonstrations, and incorporates the other work requirements of current law. States must implement the new JOBS program by October 1, 1990. The remainder of this section describes the pre-JOBS provisions currently in effect. A discussion of the Family Support Act is presented below under the heading "The Family Support Act of 1988."

The WIN program and WIN demonstrations

The WIN program was established in 1967 with the purpose of providing skill assessments, job training, and employment placements to help AFDC recipients to become self-supporting (see tables 2-3). At the Federal level, the program is jointly administered by the Department of Labor and the Department of Health and Human Services. A dual administrative structure is also in place at the State level, unless the State has elected to operate a WIN demonstration project. These projects, authorized by OBRA (Public Law 97-35), permit States to design an alternative to WIN, administered solely by State welfare agencies. The Department of Health and Human Services oversees these demonstrations. Currently, 30 States are operating WIN demonstrations. Table 4 identifies the WIN demonstration States and the date the demonstration began.

In fiscal year 1981, Federal funding for the WIN program totaled $365 million. By fiscal year 1987, Federal WIN funding had declined to $110 million. Fiscal year 1988 funding totaled $92.5 million. Funding limitations have restricted the States' ability to provide WIN services and training to AFDC recipients. As a result, many WIN registrants do not ever receive skills assessments, training, or job placements. As of September 1985, an estimated 1.6 million individuals were registered with WIN and WIN demonstration programs, of a total AFDC caseload of 3.7 million families.

AFDC recipients who are selected for participation in WIN must accept available jobs, training or needed services to prepare them for employment. Refusal to do so without good cause will result in a sanction. In the case of two-parent families, the entire family is made ineligible. In the case of a single parent who refuses to work, payment to the nonworking adult is denied, but protective payments continue for the children. Protective payments are payments to a third party. Usually a relative, neighbor or friend will receive the benefit check on behalf of the child; sometimes the State caseworker will serve as protective payee.

Effective for tax years beginning after December 31, 1981, WIN registrants and AFDC recipients were added to the list of target groups for whom employers can receive a targeted jobs credit. For tax years 1981-85, the credit was equal to 50 percent of up to $6,000 in wages for the first year of employment and 25 percent of such wages for the second year. The Tax Reform Act of 1986 extended the credit through December 1988, but reduced the first year credit from 50 to 40 percent for up to $6,000 in qualified wages.

TABLE 2.—WIN PROGRAM DATA, FISCAL YEARS 1981, 1982, 1984–86

[Persons in thousands, dollars in millions]

	Fiscal year—				
	1981	[1] 1982	1984	1985	[6] 1986
New registrants [2]	1,156	903	1,016	1,013	870
Individuals entering unsubsidized employment [3]	310	204	354	340	260
Persons off welfare because employed [4]	169	144	178	170	130
6-month retention rate [5]	61.5	62.3	61	61	61
Welfare cost savings	$760	$521	NA	NA	NA
Appropriation	$365	$281	$259	$258	$203

[1] 11 States implemented in various months the WIN demonstration program during the latter part of fiscal year 1982.

[2] Registrations: FY 1984, 34 WIN regular, 18 WIN Demo States; FY 1985, 31 WIN regular, 23 WIN Demo States; FY 1986, 28 WIN regular, 26 WIN Demo States.

[3] Individuals entering unsubsidized employment whose employment was expected to last 30 days or more.

[4] Indicates number of individuals who completely went off welfare because of employment.

[5] Adjusted for GAO recommendations for fiscal year 1984 and beyond.

[6] Projections for 1986 using appropriated amounts as modified by Gramm-Rudman.

NA—not available.

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

Job search

States are permitted to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year, up to 16 weeks of employment search may be required, with 8 weeks per year thereafter.

TABLE 3.—WIN REGISTRANTS AND JOB ENTRANTS BY SELECTED CHARACTERISTICS, FISCAL YEARS 1983–85

[In percentages]

	Fiscal year 1983		Fiscal year 1984		Fiscal year 1985	
	Registrants	Job entrants	Registrants	Job entrants	Registrants	Job entrants
Sex:						
Male	30	38	27	37	21	28
Female	70	62	73	63	79	72
Ethnic group:						
White	41	57	38	55	46	58
Black	34	25	36	26	42	34
Hispanic	18	14	19	15	9	5
Other	7	4	7	4	3	3
Years of school completed:						
0 to 8	16	9	17	9	14	7
9 to 11	36	31	36	31	38	32
12	37	45	37	46	38	47
Over 12	11	15	10	14	10	14
Age:						
Under 22	12	10	10	8	12	10
22 to 44	77	84	77	85	78	84
45 or older	11	6	13	7	10	6
Registrant status:						
Mandatory	91	89	91	91	88	84
Percent of mandatory which are unemployed parent	(22)	(29)	(20)	(21)	(14)	(22)
Voluntary	9	11	9	9	12	16

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

All WIN registrants, those exempt because they are remote from WIN sites, and applicants who appear to be WIN eligible may be required to participate in the job search program. At State option the job search requirement may be limited to certain groups or classes of individuals who are required to register for WIN. Transportation and other necessary costs incurred by participants must be reimbursed; States receive 50 percent Federal matching funds for these costs and may not use the job search requirement as a reason for delaying eligibility determinations or payments to those who are otherwise eligible. An individual who fails to comply with the job search requirement is subject to the sanctions described for the WIN program. Table 4 lists the States that have elected to require job search.

Community work experience program

Under authority granted by OBRA, States may operate community work experience programs (CWEP) if they so choose. These programs are commonly referred to as "workfare" and require adult AFDC recipients to perform some sort of community work, such as park beautification or as a teacher aide, in exchange for the AFDC benefit. The individual does not become a paid employee but, instead, works off the AFDC benefit. The number of hours a person works may not exceed their AFDC grant divided by the applicable minimum wage. CWEP participants do not receive the earned income disregards.

States may require CWEP participation by most AFDC recipients who are registered for WIN. However, unlike WIN, which exempts parents with children under the age of 6 from the work requirement, CWEP may require parents caring for children under age 6, but not under age 3, to participate if child care is available. As of September 1988, 30 States had opted to implement some kind of community work experience program. Most State workfare programs are not statewide. Table 4 identifies the States with a CWEP program. Table 5 presents estimates of monthly participation in CWEP and employment search programs.

Work supplementation and grant diversion

Finally, OBRA also permits States to operate work supplementation programs, in which AFDC may be used to subsidize a job for an AFDC recipient. In 1984, Congress amended the work supplementation provisions established by OBRA to give States greater flexibility. Under the original work supplementation program authorization, States could set their own eligibility requirements, adjust need standards and operate the program without regard to the regular statewideness and earned income disregard rules. Funds accrued from reducing the need standard or revising the earned income disregards were to be used to help defray the costs of subsidizing employment opportunities. However, the act limited Federal funding for an AFDC program which included a work supplementation component to that which would have been available to a State under its May 1981 State plan, adjusted for mandatory changes in Federal law and caseload changes within the State. Because of this restriction and the requirement that work supplementation jobs be limited to public or nonprofit organizations, States did not elect this option.

In 1984, the Deficit Reduction Act amended the work supplementation program requirements. Under the new law: (1) recipients may be placed in jobs offered by private as well as nonprofit employers; (2) States are permitted but not required to offer a $30 plus one-third earned income disregard for up to 9 months for participants; (3) Federal funding is limited to the aggregate of 9 months worth of unreduced welfare grants for each participant in the work supplementation program (or less if the person participates for fewer than 9 months); and (4) a State is permitted to develop its own method by which AFDC grants are diverted to wages and is not limited to prior law requirements. This permits States to pool the benefits of AFDC recipients actually participating in the program rather than diverting the grant on an individual case basis.

A number of States also requested and received waivers, under section 1115 of the act, which permitted them to operate a similar program called grant diversion. In a grant diversion program, States could use the AFDC benefit as a wage subsidy to encourage employers to hire AFDC recipients. Private, for-profit employers may participate in grant diversion. The wage subsidy is for a limited period, usually no more than 6 months. Currently 26 States are operating grant diversion or work supplementation programs. Table 6 summarizes these State programs.

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS

[Data as of September 1988]

State	Date WIN demo implemented	CWEP	IV–A job search
Alabama	Oct. 2, 1988	Implemented in 1 county April 1982; now operating in 3 counties..	
Alaska			Implemented October 1986; now operating in 5 WIN areas.
Arizona	June 1, 1982		
Arkansas	Sept. 30, 1982	Implemented July 1987 in 46 counties.	Implemented July 1987; now operating statewide.
California	Jan. 1, 1985	Implemented [1] in 51 counties July 1981; now in 19 counties.	Implemented October 1985, now operating in 51 counties.
Colorado		Implemented in 1 county September 1982; now operating in 26 counties.	
Connecticut	Oct. 1, 1985		Implemented statewide for UP recipients and mandatory WIN demo registrants who are determined to be job ready at assessments.
Delaware	Apr. 1, 1982		
District of Columbia.	July 1, 1987		Implemented December 1987.
Florida	Apr. 1, 1982	Implemented in 4 counties March 1, 1988.	Implemented July 1985 in the 51 WIN demo counties.
Georgia	Jan. 1, 1985	Implemented in 20 counties August 1982; now operating in 20 counties.	Implemented January 1986; now operating in 20 WIN demo CWEP counties for recipients.
Idaho		Implemented in January 1982; now operating in 8 WIN areas.	
Illinois	July 1, 1982	Implemented in 12 counties in February 1984; now operating statewide.	Implemented April 1987 statewide.
Indiana	Sept. 30, 1985	Implemented in 19 counties December 1987.	
Iowa	Sept. 30, 1983	Implemented for regular AFDC cases in 5 counties July 1982; currently operating in 74 counties for UP cases.	Implemented March 1988 in 49 counties.
Kansas		Implemented in 4 counties May 1983; currently operating in 22 counties.	Implemented for recipients only May 1983; now operating statewide.

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS—Continued

[Data as of September 1988]

State	Date WIN demo implemented	CWEP	IV–A job search
Maine	Apr. 1, 1982		Implemented for recipients only January 1983; now operating in WIN demo areas for WIN demo registrants.
Maryland	Sept. 30, 1982		Implemented January 1988 in 23 counties.
Massachusetts	Apr. 12, 1982		Implemented for applicants and recipients in 14 counties October 1982. Statewide for UP's only.
Michigan	Apr. 1, 1982	Implemented July 1982; now operating statewide.	Implemented April 1987 statewide for recipients.
Minnesota		Implemented in 3 counties March 1983; now operating in 7 counties; for UP recipients.	Implemented April 1986; in CWEP counties; statewide for UP recipients.
Nebraska	Sept. 30, 1982	Implemented May 1986; now operating statewide.	Implemented March 1986; statewide.
Nevada		Implemented January 1987 in 3 counties.	
New Hampshire			Implemented October 1987 in 10 counties.
New Jersey	Oct. 1, 1982	Implemented April 1988	Implemented October 1985; now statewide.
New Mexico	July 1, 1987	Implemented September 1986 in 18 counties.	Implemented July 1987; now operating in 18 counties for recipients only.
New York	May 1, 1985	Implemented [1] January 1982; now operating in 62 counties and in New York City.	Implemented April 1987 in 62 counties for recipients only.
North Carolina		Implemented [1] in 6 counties January 1982; now operating in 41 counties.	
North Dakota		Implemented in 2 counties January 1982; now operating in 10 counties.	
Ohio		Implemented [1] in 4 counties March 1983; now operating in 32 counties.	Implemented for recipients only in 4 counties June 1986; now operating in 88 counties.
Oklahoma	Jan. 1, 1982	Implemented statewide January 1982.	Implemented statewide for applicants and recipients April 1983.
Oregon	Jan. 1, 1982		Implemented for applicants and recipients statewide December 1982.
Pennsylvania	Sept. 30, 1982	Implemented [1] statewide March 1983 as part of WIN demonstration.	Implemented October 1986 statewide for recipients.
Rhode Island	July 1, 1987		Implemented for AFDC recipients January 1986.
South Carolina		Implemented [1] in 4 counties May 1982.	Implemented for applicants and recipients statewide October 1985.
South Dakota	Apr. 1, 1982	Implemented in 40 counties April 1982; now operating statewide.	
Tennessee	Oct. 2, 1985		
Texas	Mar. 4, 1982		Implemented April 1983 for applicants and recipients, now operating statewide for recipients only.
Utah			Implemented for applicants and recipients statewide October 1984.
Vermont		Implemented April 1984; for UP cases active 6 mo. or more.	Implemented for UP applicants statewide April 1984.

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS—Continued

[Data as of September 1988]

State	Date WIN demo implemented	CWEP	IV–A job search
Virginia	Jan. 1, 1983	Implemented [1] statewide as part of WIN demonstration January 1983.	Implemented statewide January 1983 for recipients.
Washington		Implemented [1] in 2 counties June 1982.	Implemented for applicants and recipients statewide October 1984.
West Virginia	Sept. 27, 1982	Implemented [1] statewide for UP's January 1982; now operating statewide for regular AFDC recipients as part of WIN demonstration.	Implemented July 1986; statewide for applicants and recipients as part of WIN demo.
Wisconsin	Sept. 30, 1983	Implemented statewide for recipients, August 1986.	Implemented statewide July 1986.

[1] CWEP demonstration.

Source: Family Support Administration, January, 1988.

TABLE 5.—ESTIMATES OF MONTHLY PARTICIPATION IN AFDC WORK PROGRAMS

State	Fiscal year 1986		Fiscal year 1987	
	CWEP	Employment search	CWEP	Employment search
Alabama	580	0	0	0
Alaska	0	0	0	1,700
Arizona	0	0	0	0
Arkansas	0	0	0	0
California	0	0	6,700	9,000
Colorado	471	0	465	0
Connecticut	0	0	0	77
Delaware	0	0	0	0
District of Columbia	0	0	0	0
Florida	0	0	0	0
Georgia	400	0	0	25
Hawaii	0	0	0	0
Idaho	0	0	0	0
Illinois	0	0	0	0
Indiana	0	0	0	0
Iowa	837	0	627	0
Kansas	1,093	375	593	984
Kentucky	0	0	0	0
Louisiana	0	0	0	0
Maine	0	332	0	374
Maryland	0	0	0	0
Massachusetts	0	11,000	0	11,000
Michigan	0	0	0	0
Minnesota	153	0	95	32
Mississippi	0	0	0	0

TABLE 5.—ESTIMATES OF MONTHLY PARTICIPATION IN AFDC WORK PROGRAMS—Continued

State	Fiscal year 1986		Fiscal year 1987	
	CWEP	Employment search	CWEP	Employment search
Missouri	0	0	0	0
Montana	0	0	0	0
Nebraska	0	3,405	0	3,405
Nevada	0	0	70	0
New Hampshire	0	0	0	0
New Jersey	0	0	0	0
New Mexico	0	0	0	0
New York	11,444	7,505	14,977	7,500
North Carolina	3,976	0	9,978	0
North Dakota	138	0	138	0
Ohio	2,773	897	4,159	1,346
Oklahoma	2,500	6,000	933	495
Oregon	0	12,293	0	9,788
Pennsylvania	0	0	2,948	86,806
Rhode Island	0	750	0	760
South Carolina	56	47	46	317
South Dakota	269	0	280	0
Tennessee	0	0	0	0
Texas	0	5,310	0	6,612
Utah	771	7,723	1,189	1,013
Vermont	0	0	110	1,500
Virginia	21,750	0	0	22,000
Washington	8	1,364	7	1,719
West Virginia	4,700	0	5,039	0
Wisconsin	0	0	300	4,200
Wyoming	0	0	0	0
Guam	0	0	0	0
Puerto Rico	0	0	0	0
Virgin Islands	0	0	0	0
Total	51,919	57,001	48,654	170,653

Source: Family Support Administration.

TABLE 6.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS

[Data as of December 1987]

	AFDC for family of 3, 1988	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/mandatory	Location	Annual participation goal
California	663	50 percent	6 months average	Duration varies, 9 months maximum flat 50 percent.	Voluntary	3 counties	No official goal.
Colorado	356	100 percent including other State/local funds.	8 week cycles	Fixed subsidy and duration (short term public employment).	Mandatory	3 counties	600.
Connecticut	623	$1.75/hr	5 months maximum	Pool of diverted grant amount/duration based on consideration of reasonable coordination with State operations.	Voluntary	4 districts	687 participants.
Florida	275	$1.10/hr	6 months maximum	Flat 50 percent JTPA flat amount AFDC ($190); duration—DOT code.	Voluntary	51 counties	No official goal.
Illinois	330	$305 per month	6 months	Average high and low grants.	Voluntary	Authorized statewide.	No official goal
Indiana	288	$300 per month	6 months	Based on less than 50 percent of minimum wage.	Voluntary	3 counties	No annual goal

Iowa	394	$200 per month	6 months	Variable	Mandatory once. in program	8 counties	50 per year.
Kansas	401	$250 per month	9 months	Variable	Mandatory once. in program	4 counties	100 per year.
Maine	416	50 percent	6 months maximum may be after pre-vocational and field training.	Flat 50 percent; including JTPA contribution; duration based on DOT FVP code.	Voluntary	Statewide	No official goal.
Maryland	359	50 percent	4 month average	Flat 50 percent; duration may vary.	Voluntary	8 counties	200–250 participants; 250 job entries.
Massachusetts	579	Minimum 25 percent; maximum 50 percent.	Maximum 9 months; average 4 months.	Varies; duration 9 months.	Voluntary	Statewide	1,200 job entries.
Michigan	476	Maximum of 50 percent of grant amount up to $400.	6 months	Knowledge, skills and abilities required of the job in which the participant is placed for on-the-job training..	Voluntary	6 counties	1,050 job entries.

TABLE 6.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS—Continued

[Data as of December 1987]

	AFDC for family of 3, 1988	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/mandatory	Location	Annual participation goal
Minnesota	532	At least 50 percent from AFDC plus other funds (WIN, JTPA, State).	9 months	Knowledge, skills and abilities required of the job in which the participant is placed for on-the-job training..	Voluntary	15 counties	NA.
Montana	359	$150	6 months	6 months maximum combined 50 percent of employee wages, IV–A contributes $150, JTPA contributes the balance.	Voluntary	4 counties	60 participants.
New Jersey	404	50 percent	5 months average (9 months maximum).	Flat 50 percent; duration may vary.	Voluntary	9 counties	500.
New York	539	$250/month	6 months maximum	Flat amount ($250); duration may vary.	Mandatory	36 counties	1,552 job entries.
North Carolina	266	50 percent of training wage.	9 months maximum	Based on employers wage/DOT Code.	Voluntary	3 counties	No official goal.

Ohio	309	100 percent of grant less residual grant.	9 months (maximum).	Knowledge, skills and abilities required of job in which the participant is placed for on-the-job training.	Voluntary	30 counties	No annual goal.
Oregon	420	$200/month maximum.	9 months maximum	Flat $200 if monthly wage $500 or more; if less, $1.15/hour of work.	Initially voluntary.	Statewide	No numerical goal.
Oklahoma	310	$250/month	9 months maximum	Flat $250/month; 9 months duration.	Voluntary	Statewide	500.
Rhode Island	517	25 percent JTPA, 25 percent diverted grant.	3 month minimum, 6 month maximum.	Based on a market determined training potential.	Voluntary	Statewide	125 per year.
Utah	376	50 percent of salary usually varies.	3 to 6 months depending on individual circumstances.	Varies, 3 to 6 months depending on circumstances.	Voluntary	4 counties	No official goal.
Vermont	604	50 percent	Maximum 9 months Average 3.5 months.	Flat 50 percent; 9 month maximum based on DOT FVP code.	Voluntary	Statewide	200.

TABLE 6.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS—Continued

[Data as of December 1987]

	AFDC for family of 3, 1988	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/mandatory	Location	Annual participation goal
Virginia	303	Variable depending on wage and locality.	7 months average (3 months minimum); 9 months maximum.	Flat amount based on wage and locality not to exceed $270.	Voluntary	6 jurisdictions	120 job entries.
Washington	492	50 percent of wage	9 months maximum	Flat 50 percent of wage.	Voluntary	2 counties	No numerical goal.
Wisconsin	509	$400 per month	9 months	Average JTPA placement wage per hour in 1985 multiplied by 40 hrs. plus applied income disregard.	Voluntary	Statewide	No official goal.

Source: Family Support Administration.

TREATMENT OF RESOURCES

Allowable resources are limited, by Public Law 97-35, to $1,000 (equity value) per family, excluding the home and one automobile if the family member's ownership interest does not exceed a limit chosen by the Secretary of Health and Human Services. HHS regulations set $1,500 as the equity value limit for the automobile and permit States to exclude from countable resources "basic items essential to day to day living," such as clothing and furniture. Previous regulations permitted States to adopt a counted resource limit as high as $2,000 per family member, but allowed States to consider the home and auto as counted resources.

AFDC FOR FAMILIES WITH UNEMPLOYED PARENTS (AFDC-UP)

The original Social Security Act permitted States to give AFDC only to needy children in one-parent homes, unless the second parent was incapacitated. Then, as now, most AFDC children lived in fatherless homes. For the first 25 years of the program, if a father lost his job and his family became needy, State AFDC programs were forbidden to help the family so long as he lived at home. In 1961, in an antirecession measure, the law was changed so that jobless fathers at home would not disqualify their families for welfare. Since May of that year States have been permitted to give AFDC to needy children of unemployed parents.

At first the States defined "unemployment," and some included fathers who worked as much as 35 hours a week, but since 1971 Federal regulations have specified that an AFDC parent must work fewer than 100 hours a month to be classified as unemployed.

Congress in 1981 (Public Law 97-35) specified that the qualifying unemployed parent must be the family's principal earner. Almost half of the 54 jurisdictions with AFDC programs never have used the option to give AFDC cash benefits to the unemployed and partly employed. The number of AFDC-UP State programs in recent years has ranged from 23 (December 1982) to 29 (September 1979), and in fiscal year 1988 was 29 jurisdictions. American Somoa, effective October 1, 1988, and Wyoming, effective November 1, 1988, have an AFDC-UP program, bringing the total at the beginning of fiscal year 1989 to 31. The States now participating contain about 71 percent of the Nation's total AFDC caseload, including most relatively high-benefit States. Expansion of AFDC eligibility to unemployed parents has been resisted, at least in some of the remaining States, because of the added costs. Beginning on October 1, 1990, however, all States will be required to operate an AFDC-UP program that complies with the provisions of Public Law 100-485 (the Family Support Act of 1988).

During the 1970's, the AFDC-UP program served a monthly average of 120,000 families. In recent years the number of AFDC-UP families has risen sharply: fiscal year 1981, 209,000 families (monthly average); fiscal year 1982, 232,000; fiscal year 1983, 272,000, and fiscal year 1984, 287,000. In 1985, this dropped to 261,000, in 1986 to 253,000 and in 1987 to 236,167. (See table 20.) Changes in participation reflect, among other things, changes in the unemployment rate.

TABLE 7.—AFDC–UP RECIPIENTS OF CASH PAYMENTS AND AMOUNTS OF PAYMENTS BY STATE, FISCAL YEAR 1988 (INCLUDES NONMEDICAL VENDOR PAYMENTS, PRELIMINARY DATA)

State	UP money payments (thousands)	Average number of families	Average number of recipients	Average payment per—	
				Family	Recipient
California	$645,362,004	71,036	334,022	$757	$161
Connecticut	3,204,314	457	2,051	584	130
Delaware	157,266	47	182	280	72
District of Columbia	557,264	124	456	375	102
Guam	185,636	52	270	295	57
Hawaii	4,336,129	641	3,113	563	116
Illinois	51,532,763	11,604	50,910	370	84
Iowa	15,299,314	3,162	13,065	403	98
Kansas	8,675,108	1,781	7,413	406	98
Maine	5,727,781	919	4,011	519	119
Maryland	3,780,642	719	3,146	438	100
Massachusetts	8,662,416	1,067	4,961	677	146
Michigan	180,211,938	26,302	111,993	571	134
Minnesota	48,940,603	7,012	31,755	582	128
Missouri	12,188,570	4,056	17,647	250	58
Montana	945,726	1,068	4,677	74	17
Nebraska	5,485,952	1,146	4,932	399	93
New Jersey [1]	12,101,433	2,199	10,552	459	96
New York	59,820,020	9,134	39,889	546	125
North Carolina	324,862	81	373	333	73
Ohio	124,872,337	27,540	111,220	378	94
Oregon	8,160,841	1,773	7,426	384	92
Pennsylvania	45,013,960	8,599	37,062	436	101
Rhode Island [1]	556,376	90	410	515	113
South Carolina	1,092,839	367	1,774	248	51
Vermont	2,614,280	438	1,832	498	119
Washington	44,782,160	7,029	30,283	531	123
West Virginia	33,232,555	9,420	38,365	294	72
Wisconsin	81,584,939	11,973	54,748	568	124
U.S. total	1,409,410,028	209,837	928,537	560	126

[1] Families and Recipient data for July, August and September were taken from the FSA–3645 "Flash" report for New Jersey. Families and recipient data for the month of September were taken from the same report for Rhode Island.

Enrollment for fiscal year 1988 again declined (see table 7). Some 209,837 families (928,537 persons) participated, well below the peak number of 287,000 families in 1984. AFDC–UP families in fiscal year 1988 averaged 4.4 persons. They received payments averaging $560 per family, $126 per person in fiscal year 1988.

INTERACTION BETWEEN AFDC AND OTHER PROGRAMS

Medicaid

States must provide Medicaid to families receiving cash assistance under AFDC. The Deficit Reduction Act of 1984 (Public Law 98–369) and the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99–272) also require States to extend this categorically needy Medicaid coverage, at regular Federal matching rates, to the following groups meeting AFDC income and resource requirements: (1) all pregnant women, regardless of family composition, from medical verification of pregnancy; and (2) children born on or after October 1, 1983, up to age 5. States may at their option extend Medicaid to pregnant women, infants and young children with income above the AFDC level but below the poverty level. States that do so are prohibited from lowering AFDC benefits.

When families lose AFDC eligibility, categorical Medicaid eligibility also frequently ends, except under certain circumstances. Prior to 1984, categorical Medicaid eligibility was retained after the loss of AFDC eligibility only in the case of families whose earnings increased to the point that they would be ineligible even if the $30 plus one-third disregard were applied. These families were eligible for Medicaid for 4 additional months. If a family lost eligibility for AFDC because of the 4-month limit on the $30 plus one-third disregard, it also simultaneously lost categorical eligibility for Medicaid.

Public Law 98–369 requires States to provide 9 months of Medicaid coverage to families who lose eligibility for AFDC due to the termination of the $30 disregard, or the $30 plus one-third disregard. States have the option of extending this coverage for an additional 6 months in the case of a family that would be eligible for AFDC if the $30 plus one-third disregard were applied. Families who lose AFDC due to an increase in earnings continue to be eligible for 4 months of Medicaid benefits. In addition, States must provide 4 months of Medicaid coverage to AFDC families who lose eligibility due to receipt of child support payments.

Families who do not meet the criteria established in the 1984 amendments discussed above, and those who have exhausted these benefits, may also qualify for medically needy programs which are offered by most States. However, many State medically needy programs are less comprehensive than the basic Medicaid program and are of greatest benefit to families who incur large medical expenses.

Public Law 100–485, the Family Support Act of 1988, will establish these transitional Medicaid and child care benefits for working families effective April 1, 1990.

Food stamps

Most AFDC families are also eligible for and participate in the food stamp program, which provides an important in-kind supplement to the cash assistance paid under AFDC. Although food stamp benefits are not counted in determining AFDC eligibility, the food stamp program does consider AFDC payments to be countable income and reduces the food stamp benefit by $0.30 for each dollar of countable cash income. This interaction between AFDC and the food stamp program has important financial implications for a State which desires to increase the income of its AFDC recipients. Because food stamps are reduced by $0.30 for each additional $1 of AFDC income, the State must expend $1.43 to obtain an effective $1 increase in AFDC recipients' total income. For a State with a 50 percent matching rate, the State must expend $0.72 to actually obtain a $1 increase in recipient income. This would be the typical situation for an AFDC recipient with no earnings.

Table 8 illustrates the interaction of various programs for a mother with two children at various earning levels. The example assumes the family lives in Pennsylvania, which pays AFDC benefits slightly above average; calculations are made after the mother has been working for 4 months and lost the $30 plus one-third earned income disregard.

TABLE 8.—EARNINGS AND BENEFITS FOR A MOTHER WITH TWO CHILDREN WITH DAYCARE EXPENSES—AFTER 4 MONTHS ON JOB (JANUARY 1989)—(PENNSYLVANIA)

Earnings	EITC	AFDC [1]	Food stamps [2]	Medicaid	Taxes			Work expenses [4]	"Disposable" income
					Social security	Federal income [3]	State income		
0	0	$4,824	$1,766	Yes	0	0	0	0	[5] $6,590
$2,000	$280	4,204	1,525	Yes	$150	0	0	$600	[5] 7,259
$4,000	560	2,324	1,662	Yes	300	0	0	1,200	[5] 7,046
$5,000	700	1,384	1,730	Yes	376	0	0	1,500	[5] 6,938
$6,000	840	444	1,799	Yes	451	0	0	1,800	[5] 6,832
$7,000	910	0	1,735	Yes	526	0	0	2,100	[5] 7,019
$8,000	910	0	1,555	[6] Yes	601	0	$168	2,400	[5] 7,296
$9,000	910	0	1,375	[6] Yes	676	0	189	2,700	[5] 7,720
$10,000	910	0	1,195	[7] No	751	0	210	3,000	8,144
$15,000	434	0	0	No	1,127	$668	315	4,200	9,124
$20,000	0	0	0	No	1,502	1,418	420	5,040	11,620
$30,000	0	0	0	No	2,253	2,918	630	5,040	19,159
$50,000	0	0	0	No	3,605	7,816	1,050	5,040	32,489

[1] Assumes these deductions: $105 monthly standard allowance (which would drop to $75 after 1 year on the job) and child care costs equal to 20 percent of earnings, up to maximum of $320 for 2 children.

[2] Assumes these deductions: 20 percent of earnings (including EITC as earnings), $102 monthly standard deduction and child care costs equal to 20 percent of wages, up to maximum of $320 for 2 children.

[3] Head of household rates in effect for 1989.

[4] Assumed to equal 10 percent of earnings up to maximum of $100 monthly, plus child care costs equal to 20 percent of earnings up to the maximum allowed by AFDC, and food stamps ($320 for 2 children).

[5] In addition, the benefits from Medicaid could be added, but are not. Medicaid, in fiscal year 1986 cost about $1,994 for a 3-person AFDC family (national average). In Pennsylvania, the cost of Medicaid for a 3-person family in fiscal year 1986 was $1,775.

[6] Family would qualify for Medicaid for 9 additional months under 1984 Federal law, which requires State to continue Medicaid that long for a family whose earnings removed them from AFDC, provided the family would have retained AFDC eligibility if $30 monthly and one-third of residual earnings had been disregarded beyond 4 months.

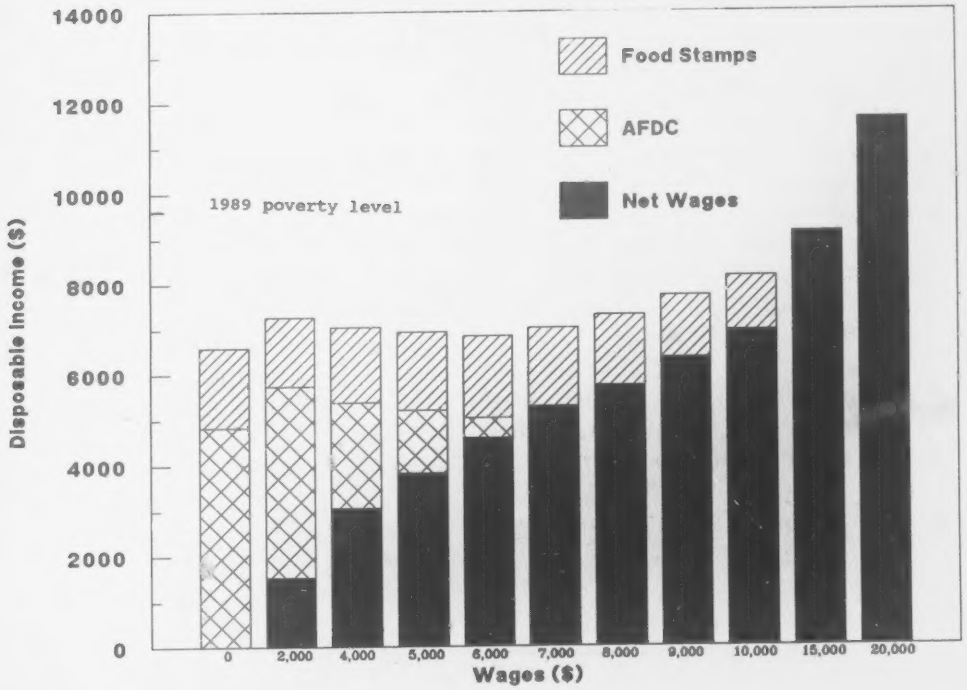
[7] To regain Medicaid eligibility, family must spend down on medical expenses to State's medically needy limit ($5,100, as of July 1987).

Note: Under IRS rules, unless earnings at least equal AFDC, the mother generally is not a "head of household" eligible for EITC; but it appears that this rule is rarely applied. Example assumes the rule is not applied.

Source: Congressional Research Service.

CHART 1

DISPOSABLE INCOME AT VARIOUS WAGE LEVELS
FOR A MOTHER WITH TWO CHILDREN WITH CHILD CARE EXPENSES
PENNSYLVANIA, JANUARY 1989



SSI and Social Security

In AFDC, Social Security benefits are treated as unearned income and thus AFDC benefits are reduced by $1 for each $1 of OASDI benefits. SSI benefits received by a potential member of an AFDC family are treated differently. This member (both a child or an adult receiving SSI benefits) is not regarded as a part of the AFDC unit. Thus his needs are not taken into account in determining the AFDC benefit level. At the same time, the income and resources of the SSI recipient are also ignored in determining the AFDC benefit.

CURRENT BENEFIT LEVELS AND TRENDS

Each State establishes a "need standard" (the income the State decides is essential for basic consumption items) and a "payment standard" (100 percent or less of the need level). Benefits are generally computed by subtracting countable income from the State's payment standard.

Maximum payments

Maximum AFDC payments vary sharply from State to State, as shown by tables 9 and 10. State payments for AFDC families of three with no countable income in January 1989 ranged from $118 in Alabama to $809 in Alaska. Table 9 presents the gross income limit, the need standard, and the maximum monthly potential AFDC and food stamp benefits for a one-parent family of three persons, as of January 1989.

The food stamp benefits are calculated by deducting from the family's AFDC benefit (the only cash income of the family) the maximum deductions allowed under food stamps for a nonaged, nondisabled family: a total of $276. This consists of a standard deduction of $106, given in all households, plus a deduction of $170 for excess shelter costs.

If the family qualified only for the standard deduction, its food stamp benefits would be cut in most States by about $50. Table 9 shows combined maximum potential benefits of $573 to a Nebraska AFDC family of 3, including $209 in food stamps. The same family would receive only $522 in combined benefits, including $158 in food stamps, if it were credited only with the standard deduction. Food stamp program data show that most AFDC families do qualify for a deduction of some shelter costs.

As table 12 illustrates, during 1988, 27 States increased AFDC payments. Sixteen increased benefits by $14 or more per month. Twenty-seven jurisdictions had no payment increases. As a result of the increases, the median State benefit for a family of three increased from $359 to $360 per month in nominal dollars.

TABLE 9.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1989

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1988 poverty threshold [4]	AFDC benefits as a percent of 1988 poverty threshold
Alabama	$1,056	$571	$118	$236	$354	45	15
Alaska	1,497	809	809	200	1,009	103	83
Arizona	1,149	621	293	230	523	67	37
Arkansas	1,304	705	204	236	440	56	26
California	1,227	663	663	119	782	100	84
Colorado	779	421	356	212	568	72	45
Connecticut	1,153	623	623	131	754	96	79
Delaware	616	333	333	218	551	70	42
District of Columbia	1,317	712	393	200	593	76	50
Florida	1,493	807	287	232	519	66	37
Georgia	696	376	270	236	506	64	34
Hawaii	1,030	557	557	309	866	96	62
Idaho	1,025	554	304	227	531	68	39
Illinois	1,369	740	[5] 342	221	563	72	44
Indiana	592	320	288	232	520	66	37
Iowa	919	497	394	200	594	76	50
Kansas	790	427	[5] 427	206	633	81	54
Kentucky	403	218	218	236	454	58	28
Louisiana	1,217	658	190	236	426	54	24
Maine	2,163	1,169	438	187	625	80	56
Maryland	966	522	[5] 377	223	600	76	48
Massachusetts	997	539	539	157	696	89	69
Michigan (Washtenaw County)	1,125	608	[5] 543	178	721	92	69
Michigan (Wayne County)	1,058	572	[5] 513	187	700	89	65
Minnesota	984	532	532	159	691	88	68
Mississippi	681	368	120	236	356	45	15
Missouri	577	312	285	233	518	66	36
Montana	803	434	359	211	570	73	46
Nebraska	673	364	364	209	573	73	46
Nevada	1,018	550	330	219	549	70	42
New Hampshire	918	496	496	170	666	85	63
New Jersey	784	424	[5] 424	199	623	79	54
New Mexico	488	264	264	236	500	64	34
New York (Suffolk County)	1,230	665	[5] 665	135	800	102	85
New York (New York City)	997	539	[5] 539	173	712	91	69
North Carolina	984	532	266	236	502	64	34

TABLE 9.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1989—Continued

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1988 poverty threshold [4]	AFDC benefits as a percent of 1988 poverty threshold
North Dakota	714	386	386	203	589	75	49
Ohio	1,317	712	[5] 321	226	547	70	41
Oklahoma	871	471	325	221	546	70	41
Oregon	777	420	[5] 420	228	648	83	53
Pennsylvania	1,136	614	402	198	600	76	51
Rhode Island	956	517	[5] 517	168	685	87	66
South Carolina	746	403	206	236	442	56	26
South Dakota	677	366	366	209	575	73	47
Tennessee	675	365	173	236	409	52	22
Texas	1,062	574	184	236	420	53	23
Utah	929	502	376	206	582	74	48
Vermont	1,721	930	629	130	759	97	80
Virginia	727	393	354	212	566	72	45
Washington	1,613	872	[5] 492	185	677	86	63
West Virginia	919	497	249	236	485	62	32
Wisconsin	1,197	647	517	163	680	87	66
Wyoming	666	360	360	210	570	73	46
Guam	490	265	265	348	613	78	34
Puerto Rico	333	180	90	0	90	NA	11
Virgin Islands	387	209	171	303	474	60	22
Median AFDC State [6]	673	360	360	210	570	73	46

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[1] In most States these benefit amounts apply also to 2-parent families of 3 (where the second parent is incapacitated, or, as permitted in almost half the States, unemployed). Some, however, increase benefits for such families.

[2] In States with area differentials, figure shown is for area with highest benefit.

[3] Food stamp benefits are based on maximum AFDC benefits shown and assume deductions of $276 monthly ($106 standard household deduction plus $170 maximum allowable deduction for excess shelter cost) in the 48 contiguous States and D.C. In the remaining four jurisdictions these maximum allowable food stamp deductions are assumed: Alaska, $478; Hawaii, $393; Guam, $419; and Virgin Islands $219. If only the standard deduction were assumed, food stamp benefits would drop by about $50 monthly in most of the 48 contiguous States and D.C. Maximum food stamp benefits from October 1988 through September 1989 are $236 for a family of three except in these 4 jurisdictions, where they are as follows: Alaska, $300; Hawaii, $359; Guam, $348; and Virgin Islands, $303.

[4] Except for Alaska and Hawaii, this column is based on the Census Bureau's 1988 poverty threshold for a family of three persons, $9,431, converted to a monthly rate of $786. For Alaska, this threshold was increased by 25 percent; for Hawaii, by 15 percent, following the practice of the Office of Management and Budget.

[5] In these States part of the AFDC cash payment has been designated as energy aid and is disregarded by the State in calculating food stamp benefits. Illinois disregards $18. Kansas disregards $54. Maryland disregards $59. Michigan disregards $74. New Jersey disregards $25. Ohio disregards $14. New York disregards $53, the full amount of a benefit boost enacted in 1981 ($30) and in 1985 ($23). Oregon disregards $118. Rhode Island disregards $127.85. Washington disregards $46.

[6] With respect to maximum AFDC benefit among 50 States and D.C.

Note.—Puerto Rico does not have a food stamp program, instead a cash nutritional assistance payment is given to recipients.

Source: Table prepared by CRS from information provided by a telephone survey of the States.

TABLE 10.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1989 [1]

State	2-person family	3-person family	4-person family	5-person family	6-person family
Alabama	$88	$118	$147	$177	$206
Alaska* [2]	719	809	899	989	1,079
Arizona [3]	233	293	353	412	472
Arkansas	162	204	247	286	331
California*	535	663	788	899	1,010
Colorado [2] [4]	280	356	432	512	590
Connecticut* [5]	503	623	727	820	916
Delaware*	247	333	402	470	538
District of Columbia	309	393	480	553	650
Florida [3]	220	287	338	391	442
Georgia	226	270	319	364	395
Hawaii* [6]	445	557	670	782	895
Idaho	245	304	344	385	418
Illinois [2] [7]	250	342	386	452	507
Indiana [2]	229	288	346	405	463
Iowa	333	394	458	507	564
Kansas* [8]	350	427	494	555	616
Kentucky*	188	218	272	319	360
Louisiana [9]	138	190	234	277	316
Maine [2]	326	438	551	663	775
Maryland	294	377	454	526	579
Massachusetts*	446	539	628	720	814
Michigan:					
(Washtenaw County) [10]	451	543	649	747	885
(Wayne County) [10]	421	513	619	717	855
Minnesota* [2]	437	532	621	697	773
Mississippi	96	120	144	168	192
Missouri	228	285	333	378	420
Montana [2] [3]	286	359	433	507	580
Nebraska*	293	364	435	506	577
Nevada [2]	270	330	390	450	510
New Hampshire*	433	496	552	606	679
New Jersey*	322	424	488	552	616
New Mexico*	210	264	317	371	424
New York:					
(Suffolk County)* [11]	547	665	775	888	968
(New York City)* [11]	439	539	638	739	814
North Carolina*	231	266	291	317	342
North Dakota* [2]	313	386	472	537	592

TABLE 10.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1989 [1]—Continued

State	2-person family	3-person family	4-person family	5-person family	6-person family
Ohio	263	321	397	464	517
Oklahoma [2]	252	325	403	472	539
Oregon* [2]	359	420	511	599	683
Pennsylvania [12]	315	402	490	579	655
Rhode Island* [13]	419	517	590	663	747
South Carolina	165	206	248	290	332
South Dakota*	323	366	408	450	492
Tennessee	133	173	211	247	285
Texas [2]	158	184	221	246	284
Utah	301	376	439	500	550
Vermont [14]	527	629	705	794	848
Virginia [15]	294	354	410	488	518
Washington	397	492	578	666	756
West Virginia [3] [16]	201	249	312	360	413
Wisconsin [17]	440	517	617	708	766
Wyoming* [3]	320	360	390	450	510
Guam*	205	265	310	341	371
Puerto Rico [18]	66	90	114	138	162
Virgin Islands	126	171	215	259	304
Median State [19]	294	360	432	500	550

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* These States pay 100 percent of the need standard.

[1] Maximum benefit paid for a family of given size with zero countable income. Family members include 1 adult caretaker.

[2] Alaska, Colorado, Illinois, Indiana, Maine, Minnesota, Montana, North Dakota, Oklahoma, Oregon, and Texas also have a children-only schedule.

[3] Arizona, Florida, Montana, West Virginia and Wyoming have two payment schedules, one that includes shelter expenses and one that does not.

[4] Colorado no longer has separate payment schedules for winter months and non-winter months.

[5] Connecticut has three rent regions. Data shown are from rent region A which has the highest rents.

[6] The Hawaii figures include shelter maximums of $236.50, $264, $291.50, 319, and $352 for an AFDC family with 2 through 6 recipients, respectively.

[7] Illinois divides itself into 3 distinct areas with regard to payment schedules. Data shown are from the Cook County area, which includes Chicago.

[8] Kansas has a basic standard and a shelter standard. The shelter standard varies from area to area (i.e., from $76 monthly to $135 monthly). The shelter payment in Topeka and some of the other larger cities is $109 monthly. The figures shown include a shelter standard of $135 monthly.

[9] Louisiana has two payment schedules—one for urban areas, from which our data were taken, and one for rural areas.

[10] Michigan has varied shelter maximums. Shown are benefits for Washtenaw County (Ann Arbor) and Wayne County (Detroit).

[11] New York has payment schedules for each social service district. Shown are the Suffolk County and New York City amounts. The figures include energy payments.

[12] Pennsylvania has four regions. The figures in the table are from region 1, which has the highest benefits.

[13] Rhode Island no longer has separate payment schedules for winter months and non-winter months.

[14] Vermont has a base amount plus a shelter maximum that depends on whether the recipient is living inside or outside of Chittenden County. The largest amount paid to a recipient with no other income equals 67.7 percent of the base amount plus 67.7 percent of the shelter allowance. The shelter maximum for families living in Chittenden County is $325 per month, for those living outside Chittenden County the shelter maximum is $250 monthly.

[15] Virginia has three payment schedules. The figures shown are from area 3 which has the highest benefits.

[16] West Virginia has three payment schedules. The figures show the higher benefit levels.

[17] Wisconsin has two regions—one for urban areas, from which our data were taken, and one for rural areas.

[18] Puerto Rico pays 50 percent of need plus 50 percent of rent as paid. The figures assume rent at $20 a month. Officials estimate that $20 is the average amount allowed for rent.

[19] Among 50 States and D.C.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of a telephone survey of the States.

Need and payment standards

To receive AFDC payments, a family must pass two income tests: first, a gross income test, and second, a counted ("net") income test. The gross income test is 185 percent of the State's need standard for the relevant family size; and it applies to both applicants and enrollees. This was increased by Congress from 150 percent of the need standard by Public Law 98-369 in 1984. No one with gross income that *exceeds* 185 percent of the need standard can receive AFDC. For applicants, the counted income test is 100 percent of the need standard, and it determines whether the family is deemed to be in "need" (see tables 9 and 10).

However, to be eligible for an actual payment, the family's counted income also must be below the State's payment standard, which in 25 jurisdictions is below the need standard.

Further, a $10 minimum payment rule imposed by Public Law 97-35 requires that counted income be at least $10 below the payment standard for an actual payment to be made.

Table 11 shows the change in the AFDC need standard in selected years, from July 1970 to January 1989, by State. The increase in the median State from July 1970 to July 1975 (a period of 5 years) was 20 percent and from July 1975 to July 1980 it was 15 percent. From July 1980 to January 1989 (a period of 8½ years), the increase was 63 percent. Between July 1970 and January 1989, the Consumer Price Index (CPI) rose an estimated 210 percent, as compared to a 125 percent increase in the AFDC need standard.

Many States increased their need standards (but often not actual benefit levels) after passage of the gross income limit in 1981.

TABLE 11.—AFDC NEED STANDARD FOR A THREE-PERSON FAMILY BY STATE FOR SELECTED YEARS

	July 1970 [1]	July 1975	July 1980	January 1985 [2]	January 1987 [2]	January 1988 [2]	January 1989 [2]
Alabama	$184	$180	$192	$384	$384	$384	$571
Alaska	350	350	457	719	749	779	809
Arizona	212	233	233	233	621	621	621
Arkansas	149	245	234	234	234	695	705
California	351	316	480	555	617	633	663
Colorado	193	217	290	421	421	421	421
Connecticut	283	346	475	546	590	601	623
Delaware	245	245	266	287	310	319	333
District of Columbia	229	286	394	654	712	712	712
Florida	189	195	195	400	400	775	807

TABLE 11.—AFDC NEED STANDARD FOR A THREE-PERSON FAMILY BY STATE FOR SELECTED YEARS—Continued

	July 1970 [1]	July 1975	July 1980	January 1985 [2]	January 1987 [2]	January 1988 [2]	January 1989 [2]
Georgia	177	193	193	366	366	366	376
Hawaii	226	428	468	468	468	515	557
Idaho	238	345	371	554	554	554	554
Illinois	232	261	288	657	689	713	740
Indiana	272	307	307	307	307	320	320
Iowa	247	309	360	497	497	497	497
Kansas	243	321	345	373	403	409	427
Kentucky	208	185	188	197	197	207	218
Louisiana	172	164	402	538	610	632	658
Maine	277	277	415	510	558	573	1,169
Maryland	249	259	270	433	478	497	522
Massachusetts	268	259	379	439	491	510	539
Michigan (Washtenaw County)	NA	NA	NA	592	576	576	608
Michigan (Wayne County)	219	333	425	557	540	540	572
Minnesota	256	330	417	524	532	532	532
Mississippi	202	241	220	286	368	368	368
Missouri	285	325	312	312	312	312	312
Montana	221	201	259	401	428	434	434
Nebraska	281	279	310	350	350	350	364
Nevada	269	279	285	285	285	550	550
New Hampshire	262	308	346	378	397	486	496
New Jersey	302	310	360	385	404	424	424
New Mexico	167	197	220	258	258	264	264
New York (Suffolk County)	NA	NA	NA	579	602	665	665
New York (New York City)	279	332	394	474	497	539	539
North Carolina	168	183	192	446	518	532	532
North Dakota	232	283	334	371	371	371	386
Ohio	207	346	346	627	673	685	712
Oklahoma	179	217	282	282	471	471	471
Oregon	229	369	282	386	397	412	420
Pennsylvania	265	296	332	614	614	614	614
Rhode Island	229	278	340	479	503	503	517
South Carolina	162	178	187	187	380	388	403
South Dakota	264	289	321	329	366	366	366
Tennessee	179	179	179	246	345	353	365
Texas	198	155	155	494	574	574	574
Utah	223	327	480	685	693	693	502

TABLE 11.—AFDC NEED STANDARD FOR A THREE-PERSON FAMILY BY STATE FOR SELECTED YEARS—Continued

	July 1970 [1]	July 1975	July 1980	January 1985 [2]	January 1987 [2]	January 1988 [2]	January 1989 [2]
Vermont	287	402	670	852	859	889	930
Virginia	240	298	344	363	393	393	393
Washington	258	315	458	768	800	835	872
West Virginia	220	275	275	275	497	497	497
Wisconsin	214	383	522	628	641	647	647
Wyoming	246	240	315	360	360	360	360
Guam	NA	NA	261	265	265	265	265
Puerto Rico	108	108	102	180	180	180	180
Virgin Islands	NA	131	209	209	209	209	209
Median State [3]	232	279	321	401	471	503	522

[1] Data on 3-person families were not published or reported before 1975. Thus, the 1970 data were derived by reducing the reported 4-person need standard by the proportional difference between 3- and 4-person AFDC need standards as shown in the July 1975 DHEW reports.

[2] CRS survey data.

[3] Among 50 States and D.C.

NA—Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, from CRS itself.

Trends

Table 12 presents information on how the maximum AFDC benefit for a 3-person family with no income has grown from July 1970 to January 1989 by State. In current dollars, the maximum benefit of the median State climbed 28 percent from July 1970–July 1975, 23 percent from July 1975–July 1980, and 25 percent from July 1980–January 1989 (a period of 8½ years).

In constant dollars (after adjustment for inflation), in all but 3 States, benefit levels failed to keep pace with inflation. The median decline in benefit levels adjusted for inflation from 1970 to 1989 was 37 percent.

These changes in maximum AFDC benefit levels are summarized in table 12 below. The median State's maximum AFDC benefit (guarantee) for a family of three rose in nominal terms from $184 in fiscal year 1970 to $360 in fiscal year 1989. In constant dollars, however, the median State's guarantee declined 37 percent.

Most AFDC families are eligible also for food stamps (until 1979 all were). As real AFDC benefits declined in the last dozen years, food stamp benefits rose to offset part of their losses. However, combined AFDC-food stamp benefits for a 3-person family without countable income on average dropped from $685 (1988 dollars) in July 1976, when food stamps operated under uniform national rules, to $555 (1988 dollars) in July 1988. This drop, which amounted to 19 percent, was almost wholly due to shrinkage in AFDC benefit levels. Food stamp maximum benefits were virtually unchanged in real terms, since they were adjusted for food price inflation in all years except 1982. See Appendix G.

TABLE 12.—AFDC MAXIMUM BENEFIT FOR A THREE-PERSON FAMILY, BY STATE FOR SELECTED YEARS

	July 1970 [1]	July 1975	July 1980	January 1985 [2]	January 1987 [2]	January 1988 [2]	January 1989 [2]	Percent change in 1970–89 [3]
Alabama	$65	$108	$118	$118	$118	$118	$118	−42
Alaska	328	350	457	719	749	779	809	−21
Arizona	138	163	202	233	293	293	293	−32
Arkansas	89	125	161	164	192	202	204	−26
California	186	293	473	555	617	633	663	+15
Colorado	193	217	290	346	346	356	356	−41
Connecticut	283	346	475	546	590	601	623	−29
Delaware	160	221	266	287	310	319	333	−33
District of Columbia	195	243	286	327	364	379	393	−35
Florida	114	144	195	240	264	275	287	−19
Georgia	107	123	164	208	256	263	270	−19
Hawaii	226	428	468	468	468	515	557	−21
Idaho	211	300	323	304	304	304	304	−54
Illinois	232	261	288	341	342	342	342	−53
Indiana	120	200	255	256	256	288	288	−23
Iowa	201	294	360	360	381	381	394	−37
Kansas	222	321	345	373	403	409	427	−38
Kentucky	147	185	188	197	197	207	218	−52
Louisiana	88	128	152	190	190	190	190	−31
Maine	135	176	280	370	405	416	438	+4
Maryland	162	200	270	313	345	359	377	−25
Massachusetts	268	259	379	396	491	510	539	−35
Michigan (Wayne County)	219	333	425	468	473	513	513	−25
Minnesota	256	330	417	524	532	532	532	−33
Mississippi	56	48	96	96	120	120	120	−31
Missouri	104	120	248	263	279	282	285	−12
Montana	202	201	259	332	354	359	359	−43
Nebraska	171	210	310	350	350	350	364	−32
Nevada	121	195	262	233	285	325	330	−12
New Hampshire	262	308	346	378	397	486	496	−39
New Jersey	302	310	360	385	404	424	424	−55
New Mexico	149	169	220	258	258	264	264	−43
New York (New York City)	279	332	394	474	497	539	539	−38
North Carolina	145	183	192	223	259	266	266	−41
North Dakota	213	283	334	371	371	371	386	−42
Ohio	161	204	263	290	302	309	321	−36
Oklahoma	152	217	282	282	310	310	325	−31
Oregon	184	337	282	386	397	412	420	−27
Pennsylvania	265	296	332	364	382	402	402	−51

TABLE 12.—AFDC MAXIMUM BENEFIT FOR A THREE-PERSON FAMILY, BY STATE FOR SELECTED YEARS—Continued

	July 1970 [1]	July 1975	July 1980	January 1985 [2]	January 1987 [2]	January 1988 [2]	January 1989 [2]	Percent change in 1970–89 [3]
Rhode Island	229	278	340	479	503	503	517	−27
South Carolina	85	96	129	187	199	200	206	−22
South Dakota	264	289	321	329	366	366	366	−55
Tennessee	112	115	122	138	155	159	173	−50
Texas	148	116	116	167	184	184	184	−60
Utah	175	252	360	363	376	376	376	−31
Vermont	267	322	492	558	572	603	629	−24
Virginia	225	268	310	327	354	354	354	−49
Washington	258	315	458	476	492	492	492	−39
West Virginia	114	206	206	206	249	249	249	−30
Wisconsin	184	342	444	533	544	517	517	−10
Wyoming	213	235	315	360	360	360	360	−46
Guam	NA	NA	261	265	265	265	265	NA
Puerto Rico	43	43	44	90	90	90	90	−33
Virgin Islands	NA	131	209	171	171	171	171	NA
Median State [4]	184	235	288	332	354	359	360	−37

[1] Data on 3-person families were not published or reported before 1975. Thus, the 1970 data were derived by reducing the reported 4-person maximum benefit amount by the proportional difference between 3- and 4-person AFDC maximum benefit as shown in the July 1975 DHEW reports.

[2] CRS survey data.

[3] Real percentage change, calculated assuming a January 1989 CPI–U value of 361.6 relative to the average 1970 value of 116.3.

[4] Among 50 States and D.C.

NA—Not available.

Note: Table compiled by CRS on the basis of data from DHHS and, where noted, from CRS itself.

TABLE 13.—HISTORICAL TRENDS IN AVERAGE PAYMENT PER RECIPIENT AND PER FAMILY; AND MAXIMUM AND MEDIAN BENEFITS FOR A FAMILY OF FOUR; FOR SELECTED YEARS FROM 1970 TO 1988 [1]

	1970	1975	1980	1984	1985	1986	1987	1988
AFDC payments:								
Average monthly benefit per family	178	210	274	322	339	353	359	370
Average monthly benefit per person	46	63	94	110	116	120	123	127
Median State benefit in July for a family unit of 4 with no income [1]	221	264	350	376	399	415	420	432
Median State benefit in July in constant 1988 dollars [2]	672	577	501	428	439	449	437	432

TABLE 13.—HISTORICAL TRENDS IN AVERAGE PAYMENT PER RECIPIENT AND PER FAMILY; AND MAXIMUM AND MEDIAN BENEFITS FOR A FAMILY OF FOUR; FOR SELECTED YEARS FROM 1970 TO 1988 [1]—Continued

	1970	1975	1980	1984	1985	1986	1987	1988
Maximum State benefit in July for a family unit of 4 with no income	375	497	563	660	800	823	833	866
Maximum State benefit in July in constant 1988 dollars [2]	1,140	1,086	806	751	880	890	867	866

[1] Among 50 States and the District of Columbia.

[2] The constant dollar numbers were calculated using the CPI–U monthly Consumer Price Index series.

Source: Family Support Administration and the Congressional Research Service.

TABLE 14.—INCOME LEVELS AT WHICH AFDC ELIGIBILITY ENDS FOR A FAMILY OF 3, BY STATE AND PERIOD OF RECEIPT, JANUARY 1989 [1] [2]

	185 percent of need standard	Payment standard	AFDC maximum benefit	First 4 months			After 12 months		
				Effective eligibility level	Eligibility level as a percent of—		Effective eligibility level	Eligibility level as a percent of—	
					Poverty level	Minimum wage		Poverty level	Minimum wage
Alabama	1,056	118	118	274	35	47	193	25	33
Alaska	1,497	809	809	1,261	161	217	884	113	152
Arizona	1,149	293	293	524	67	90	368	47	63
Arkansas	1,304	204	204	396	50	68	279	36	48
California	1,227	663	663	1,052	134	181	738	94	127
Colorado	779	421	356	706	90	122	496	63	85
Connecticut	1,153	623	623	995	127	171	698	89	120
Delaware	616	333	333	581	74	100	408	52	70
District of Columbia	1,317	393	393	666	85	115	468	60	81
Florida	1,493	287	287	515	66	89	362	46	62
Georgia	696	376	270	642	82	111	451	57	78
Hawaii	1,030	557	557	901	115	115	632	80	109
Idaho	1,025	304	304	539	69	93	379	48	65
Illinois	1,369	342	342	594	76	102	417	53	72
Indiana	592	288	288	516	66	89	363	46	63
Iowa	919	394	394	668	85	115	469	60	81
Kansas	790	427	427	715	91	123	502	64	86
Kentucky	403	218	218	383	49	66	293	37	50
Louisiana	1,217	190	190	376	48	65	265	34	46
Maine	2,163	1,169	438	1,775	226	306	1,244	158	214
Maryland	966	377	377	644	826	111	452	58	78
Massachusetts	997	539	539	875	111	151	614	78	106
Michigan (Wayne County)	1,058	572	513	922	117	159	647	82	111
Minnesota	984	532	532	865	110	149	607	77	105
Mississippi	681	568	120	631	80	109	443	56	76

TABLE 14.—INCOME LEVELS AT WHICH AFDC ELIGIBILITY ENDS FOR A FAMILY OF 3, BY STATE AND PERIOD OF RECEIPT, JANUARY 1989 [1] [2]—Continued

				First 4 months			After 12 months		
	185 percent of need standard	Payment standard	AFDC maximum benefit	Effective eligibility level	Eligibility level as a percent of— Poverty level	Eligibility level as a percent of— Minimum wage	Effective eligibility level	Eligibility level as a percent of— Poverty level	Eligibility level as a percent of— Minimum wage
Missouri	577	285	285	512	65	88	360	46	62
Montana	803	359	359	618	79	106	434	55	75
Nebraska	673	364	364	625	80	108	439	56	76
Nevada	1,018	330	330	576	73	99	405	52	70
New Hampshire	918	496	496	814	104	140	571	73	98
New Jersey	784	424	424	711	91	122	499	64	86
New Mexico	488	264	264	482	61	83	339	43	58
New York (New York City)	997	539	539	875	111	151	614	78	106
North Carolina	984	532	532	865	110	149	607	77	105
North Dakota	714	386	386	656	84	113	461	59	79
Ohio	1,317	321	321	564	72	97	396	50	68
Oklahoma	871	325	325	569	72	98	400	51	69
Oregon	777	420	420	705	90	121	495	63	85
Pennsylvania	1,136	402	402	679	87	117	477	61	82
Rhode Island	956	517	517	844	107	145	592	75	102
South Carolina	746	403	206	681	87	117	478	61	82
South Dakota	677	366	366	628	80	108	441	56	76
Tennessee	675	365	173	626	80	108	440	56	76
Texas	1,062	184	184	368	47	63	259	33	45
Utah	929	502	376	822	105	142	577	73	99
Vermont	1,721	629	629	1,004	128	173	704	90	121
Virginia	727	354	354	611	78	105	429	55	74
Washington	1,613	492	492	808	103	139	567	72	98
West Virginia	919	249	249	461	59	79	324	41	56
Wisconsin	1,197	517	517	844	107	145	592	75	102
Wyoming	666	360	360	619	79	107	435	55	75

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[1] These calculations assume no child care expenses and work expenses of $75 per month. The breakevens for 5–12 months can be obtained by adding $30 to the breakeven for "After 12 months."

[2] Income level at which Medicaid eligibility ends. Because of minimum payment rule, actual AFDC benefits may end at a slightly different income level.

Source: Committee staff calculation.

AFDC EMERGENCY ASSISTANCE

The act permits States, at their option to operate an Emergency Assistance program for needy families with children (whether or not eligible for AFDC) if the assistance is necessary to avoid the destitution of the child or to provide living arrangements in a home for the child. The statute authorizes 50 percent Federal matching for emergency assistance furnished for a period not in excess of 30 days in any 12-month period. Regulations state that Federal matching is available for emergency assistance authorized by the State during one period of 30 consecutive days in any 12 consecutive months, including payments which are to meet needs which arose before the 30-day period or are for such needs as rent which extend beyond the 30-day period.

In fiscal year 1988, 30 jurisdictions operated an Emergency Assistance program. Table 15 presents the average monthly caseload and average monthly payments for jurisdictions participating in the program.

Note that AFDC regulations also allow States to include in their State standards of need provision for meeting "special needs" of AFDC applicants and recipients. The State plan must specify the circumstances under which payments will be made for special needs.

TABLE 15.—EMERGENCY ASSISTANCE: TOTAL CASELOAD AND PAYMENTS (FEDERAL AND STATE) FISCAL YEAR 1988—PRELIMINARY DATA

State	Average monthly caseload	Average monthly payments
California	619	$3,363,369
Delaware	157	23,198
Dist. of Columbia	1,690	80,491
Florida	435	165,858
Georgia	4,208	717,320
Illinois	219	43,182
Kansas	197	36,729
Maine	261	74,143
Maryland	1,859	379,391
Massachusetts	4,763	2,789,725
Michigan	5,231	1,412,532
Minnesota	1,723	747,574
Montana	74	19,132
Nebraska	174	87,502
New Jersey [1]	3,296	3,430,866
New York	8,335	6,006,143
North Carolina	1,314	247,377
Ohio	3,813	400,591
Oklahoma	1,755	290,706
Oregon	1,915	382,265
Pennsylvania	62	7,012
Puerto Rico	847	11,814
Vermont	271	47,062
Virgin Islands	1	319
Virginia	20	6,156
Washington	538	203,295
West Virginia	1,148	117,934
Wisconsin	980	217,579
Wyoming	275	57,516
U.S. total	46,185	21,368,825

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[1] Caseload data for July, August and September were taken from the FSA-3645, "Flash" report for New Jersey.

Source: DHHS, Family Support Administration.

FINANCING

The Federal Government pays at least 50 percent of each State's benefit payments and more than 70 percent in eleven States. Federal matching for AFDC varies from State to State, depending, within limits, on per capita income. Under matching formulas in the law, an average of 55 percent of each AFDC benefit dollar is paid by the Federal Government and 45 percent is paid by the States, some of which require local governments to share costs. The Federal share varies among States, ranging from 50 percent to 79.61 percent, and it is inversely related to State per capita income. The Federal Government pays 50 percent of administrative costs in all States.

The Federal share of a State's AFDC payments is determined by the matching formula specified for Medicaid in title XIX of the Social Security Act. (States may choose an alternate formula, specified for AFDC only in title IV of the act, but none do so. Unlike the Medicaid formula, this "regular" AFDC formula places a ceiling on average benefits eligible for Federal funds.)

The Medicaid cost-sharing formula used to determine the State and Federal shares of AFDC benefit payments is as follows:

State share = State per capita income squared/national per capita income squared × 45 percent

Federal share = 100 percent—State share (with a minimum of 50 percent and a maximum of 83 percent)

For the outlying areas, Guam, Puerto Rico, and the Virgin Islands, 75 percent Federal matching is provided for AFDC benefits, but the law imposes a ceiling on Federal funds. The ceilings are as follows: Puerto Rico, $82 million; Guam, $3.8 million; and the Virgin Islands, $2.8 million. The Family Support Act of 1988 increased the ceilings to these levels.

The Federal share of benefits is shown in table 16.

TABLE 16.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1984 THROUGH 1990

[In percent]

State	1984–85 [2]	1986	1987	1988	1989	1990
Alabama	72.14	72.30	72.41	73.29	73.10	73.21
Alaska	50.00	50.00	50.00	50.00	50.00	50.00
Arizona	61.21	62.28	62.13	62.12	62.04	60.99
Arkansas	73.65	73.83	74.02	74.21	74.14	74.58
California	50.00	50.00	50.00	50.00	50.00	50.00
Colorado	50.00	50.00	50.00	50.00	50.00	52.11
Connecticut	50.00	50.00	50.00	50.00	50.00	50.00
Delaware	50.00	50.00	50.00	51.90	52.60	50.00
District of Columbia	50.00	50.00	50.00	50.00	50.00	50.00
Florida	58.41	56.16	55.54	55.39	55.18	54.70

TABLE 16.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1984 THROUGH 1990—Continued

[In percent]

State	1984–85 [2]	1986	1987	1988	1989	1990
Georgia	67.43	66.05	64.54	63.84	62.78	62.09
Guam (Federal funds limited) [3]	75.00	75.00	75.00	75.00	75.00	50.00
Hawaii	50.00	51.00	51.29	53.71	53.99	54.50
Idaho	67.28	69.36	71.08	70.47	72.71	73.32
Illinois	50.00	50.00	50.00	50.00	50.00	50.00
Indiana	59.93	62.82	62.92	63.71	63.71	63.76
Iowa	55.24	58.90	60.39	62.75	62.95	62.52
Kansas	50.67	50.00	51.39	55.20	54.93	56.07
Kentucky	70.72	70.23	70.75	72.27	72.89	72.95
Louisiana	64.65	63.81	65.77	68.26	71.07	73.12
Maine	70.63	68.86	68.07	67.08	66.68	65.20
Maryland	50.00	50.00	50.00	50.00	50.00	50.00
Massachusetts	50.13	50.00	50.00	50.00	50.00	50.00
Michigan	50.70	56.79	56.88	56.48	54.75	54.54
Minnesota	52.67	53.41	52.98	53.98	53.07	52.74
Mississippi	77.63	78.42	78.50	79.65	79.80	80.18
Missouri	61.40	60.62	59.85	59.27	59.96	59.18
Montana	64.41	66.38	67.44	69.40	70.62	71.35
Nebraska	57.13	57.11	58.06	59.73	60.37	61.12
Nevada	50.00	50.00	50.00	50.25	50.00	50.00
New Hampshire	59.45	54.92	53.28	50.00	50.00	50.00
New Jersey	50.00	50.00	50.00	50.00	50.00	50.00
New Mexico	69.39	68.94	69.68	71.52	71.54	72.25
New York	50.88	50.00	50.00	50.00	50.00	50.00
North Carolina	69.54	69.18	68.40	68.68	68.01	67.46
North Dakota	61.32	55.12	56.41	64.87	66.53	67.52
Ohio	55.44	58.30	58.27	59.10	58.98	59.57
Oklahoma	58.47	57.60	59.86	63.33	66.06	68.29
Oregon	57.12	61.54	62.47	62.11	62.44	62.95
Pennsylvania	56.04	56.72	57.28	57.35	57.42	56.86
Puerto Rico (Federal funds limited) [3]	75.00	75.00	75.00	75.00	75.00	50.00
Rhode Island	58.17	56.33	55.38	54.85	55.88	55.15
South Carolina	73.51	72.70	72.23	73.49	73.08	73.07
South Dakota	68.31	67.82	67.45	70.43	71.02	70.90
Tennessee	70.66	70.20	70.26	70.64	70.17	69.64
Texas	54.37	53.56	55.16	56.91	59.04	61.23
Utah	70.84	72.62	73.21	73.73	73.86	74.70

TABLE 16.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1984 THROUGH 1990—Continued

[In percent]

State	1984–85 [2]	1986	1987	1988	1989	1990
Vermont	69.37	67.06	67.37	66.23	63.92	62.77
Virgin Islands (Federal funds limited) [3]	75.00	75.00	75.00	75.00	75.00	50.00
Virginia	56.53	53.14	51.86	51.34	51.20	50.00
Washington	50.00	50.06	52.52	53.21	53.06	53.88
West Virginia	70.57	71.53	72.59	74.84	76.14	76.61
Wisconsin	56.87	57.54	57.58	58.98	59.31	59.28
Wyoming	50.00	50.00	54.20	57.96	62.61	65.95

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[1] The Federal share of the AFDC program is calculated by the same formula used to determine the Federal share of medicaid costs except in States that elect an alternate formula or have no medicaid program. Texas chose the alternate formula until July 1, 1983. Arizona used the alternate formula until the first quarter of fiscal year 1983, when it was deemed qualified to use the medicaid formula for the first time. For Texas it was 55.75 for fiscal years 1982 and 1983.

[2] Effective Oct. 1, 1983, through Sept. 30, 1985.

[3] Public Law 96–272 made permanent the 75-percent matching rate for AFDC effective Oct. 1, 1979. For medicaid the matching rate remains 50 percent.

Source: Department of Health and Human Services, Family Support Administration.

FEDERAL AND STATE EXPENDITURES

In fiscal year 1988 AFDC benefits totaled $17.0 billion. Of total fiscal year 1988 benefits, $9.3 billion was paid by the Federal Government. Tables 17 and 18 present State and Federal expenditures for selected years.

Currently, 10 States require their localities to pay some portion of benefit costs. These States are:

California, Colorado, Indiana, Minnesota, Montana, New Jersey, New York, North Carolina, North Dakota, and Ohio.

Table 17 presents historical data on the amount of total Federal and State AFDC benefit payments to single-parent families (including two-parent families where one adult is incapacitated), unemployed parent families, and under the emergency assistance program. Benefit payments under current law are projected to be $17.1 billion in fiscal year 1989 and $18.6 billion by fiscal year 1994.

Table 18 presents Federal and State expenditures for AFDC in selected years. Administrative costs have risen much faster than total benefits since 1971. Administrative costs equaled 9.6 percent of 1971 benefits and are estimated to equal 13.1 percent of 1988 benefits.

Table 19 gives State-by-State fiscal year 1988 data on average monthly caseloads, benefit payments, State-local administrative costs, and administrative costs per family. Administrative costs ranged from $161 per family in Mississippi to $3,922 in Guam.

TABLE 17.—FEDERAL AND STATE AFDC BENEFIT PAYMENTS UNDER THE SINGLE PARENT, UNEMPLOYED PARENT, AND EMERGENCY ASSISTANCE PROGRAMS: FISCAL YEARS 1970 TO 1994

[In millions of dollars]

Fiscal year	Single parent [1] (1)	Unemployed parent (2)	Emergency assistance (3)	Total, columns 1, 2, and 3 [2] (4)	Child support collections [3] (5)	Total, columns 4 minus 5 [4] (6)	Column 6 expressed in 1986 constant dollars [5] (7)
1970	3,851	231	14	4,095	0	4,095	12,262
1971	4,993	412	22	5,427	0	5,427	15,445
1972	5,972	422	43	6,436	0	6,436	17,725
1973	6,459	414	38	6,912	0	6,912	18,391
1974	6,881	324	44	7,249	0	7,249	17,680
1975	7,791	362	70	8,223	0	8,223	17,906
1976	8,825	525	66	9,415	286	9,129	18,447
1977	9,420	617	70	10,107	423	9,684	18,365
1978	9,624	565	76	10,264	472	9,792	17,420
1979	9,865	522	81	10,468	597	9,871	15,924
1980	10,847	693	109	11,650	603	11,047	15,537
1981	11,769	1,075	127	12,971	671	12,300	15,686
1982	11,601	1,256	95	12,951	786	12,165	14,542
1983	12,136	1,471	121	13,727	880	12,847	14,799
1984	12,759	1,612	132	14,502	1,000	13,502	14,864
1985	13,401	1,556	157	15,114	903	14,211	15,047
1986	14,234	1,563	175	15,972	960	15,012	15,560
1987	14,792	1,516	203	16,511	1,078	15,433	15,433
1988	15,312	1,426	251	16,989	1,207	15,782	15,182
1989 [6]	15,518	1,381	262	17,161	1,371	15,790	14,626
1990 [6]	15,649	1,394	274	17,317	1,550	15,767	14,081
1991 [6]	15,974	1,564	284	17,822	1,751	16,071	14,406
1992 [6]	16,282	1,586	292	18,160	1,979	16,181	13,637
1993 [6]	16,554	1,603	300	18,458	2,235	16,222	13,379
1994 [6]	16,712	1,608	304	18,624	2,526	16,098	13,058

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[1] Includes payments to two-parent families where one adult is incapacitated.

[2] Total AFDC benefits of which a portion are reimbursed by child support collections. Total may not add due to rounding.

[3] Total AFDC collections less payments to recipients.

[4] Net AFDC benefits—Gross benefits less those reimbursed by child support collections.

[5] Net AFDC benefits in constant 1987 dollars. Adjusted based on the CPI–W index. Projections of the CPI–W index for fiscal years 1989–1994 from the Administration.

[6] Administration projections under current law.

Source: Office of Financial Management, Family Support Administration.

TABLE 18.—TOTAL, FEDERAL, AND STATE AFDC EXPENDITURES: FISCAL YEARS 1970 TO 1994

[In millions of dollars]

Fiscal year	Federal share		State share		Total	
	Benefits	Administrative	Benefits	Administrative	Benefits	Administrative
1970	2,187	[1] 572	1,443	186	4,082	[1] 881
1971	3,008	271	2,469	254	5,477	525
1972	3,612	[2] 240	2,942	241	6,554	NA
1973	3,865	313	3,138	296	7,003	610
1974	4,071	379	3,300	362	7,371	740
1975	4,625	552	3,787	529	8,412	1,082
1976	5,258	541	4,418	527	9,676	1,069
1977	5,626	595	4,762	583	10,388	1,177
1978	5,701	631	4,890	617	10,591	1,248
1979	5,825	683	4,954	668	10,779	1,350
1980	6,448	750	5,508	729	11,956	1,479
1981	6,928	835	5,917	814	12,845	1,648
1982	6,922	878	5,934	878	12,857	1,756
1983	7,332	915	6,275	915	13,607	1,830
1984	7,707	876	6,664	822	14,371	1,698
1985	8,019	890	6,938	889	14,957	1,779
1986	8,543	993	7,254	967	15,797	1,960
1987	8,915	1,081	7,407	1,051	16,323	2,133
1988 [3]	9,108	1,194	7,536	1,159	16,645	2,353
1989 [3]	9,255	1,475	7,644	1,418	16,899	2,893
1990 [3]	9,345	1,599	7,698	1,549	17,043	3,148
1991 [3]	9,616	1,416	7,922	1,369	17,538	2,785
1992 [3]	9,797	1,447	8,071	1,403	17,868	2,850
1993 [3]	9,955	1,474	8,202	1,433	18,157	2,907
1994 [3]	10,045	1,502	8,275	1,461	18,320	2,963

[1] Includes expenditures for services.

[2] Administrative expenditures only.

[3] Administration projection under current law.

Note.—Benefits do not include emergency assistance payments or reimbursement from child support enforcement collections. Foster care payments are included from 1971 to 1980. Beginning in fiscal year 1984, the costs of certifying AFDC households for food stamps are shown in the food stamp appropriation, U.S. Department of Agriculture. Administrative figures include training expenditures.

Source: Office of Financial Management, Family Support Administration.

THE 1988 CASELOAD AND RECENT TRENDS

Tables 19 and 20 present recent caseload and benefits data.

Average monthly benefits per AFDC family (2.9 persons) were $370 in fiscal year 1988, compared with $360 a year earlier.

Table 20 presents the average monthly number of families and individuals receiving AFDC benefits since 1970. In fiscal year 1988 the average monthly AFDC family enrollment was 3.7 million. This includes 11.0 million recipients of whom approximately 67 percent were children.

TABLE 19.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES AND RECIPIENTS, TOTAL BENEFIT PAYMENTS AND ADMINISTRATIVE COSTS, AND AVERAGE PAYMENT PER FAMILY AND PERSON, FISCAL YEAR 1988 (PRELIMINARY DATA) [1]

State	Total assistance payments (millions)	Average monthly caseload	Average monthly recipients	Average payment per		Total administrative costs (in millions) [2]	Annual administrative cost per AFDC family
				Family	Person		
Alabama	$62.1	45,425	131,403	$114	$39	$18.4	$405
Alaska	53.7	7,532	19,479	594	230	6.8	900
Arizona	103.3	32,113	93,810	268	92	10.9	341
Arkansas	53.3	23,442	68,519	190	65	10.4	443
California	4,074.2	587,279	1,718,552	578	198	407.9	695
Colorado	125.1	32,909	94,468	317	110	19.1	580
Connecticut	218.4	37,440	106,792	486	170	35.1	937
Delaware	24.2	7,555	19,640	267	103	5.6	744
District of Columbia	76.2	18,371	48,893	346	130	24.0	1,309
Florida	318.1	110,627	307,053	240	86	80.3	726
Georgia	265.8	87,832	251,095	252	88	51.7	589
Guam	3.3	1,279	4,526	214	61	5.0	3,922
Hawaii	77.2	13,383	41,885	481	154	5.1	378
Idaho	19.3	6,430	17,396	250	93	8.9	1,383
Illinois	814.8	220,071	671,237	309	101	82.2	373
Indiana	167.3	52,975	151,517	263	92	28.6	541
Iowa	155.0	37,082	104,065	348	124	16.4	443
Kansas	97.3	23,996	70,447	338	115	12.1	506
Kentucky	142.9	58,340	155,201	204	77	20.9	358
Louisiana	182.2	90,847	272,442	167	56	23.6	260
Maine	79.8	18,002	51,396	370	129	8.6	478
Maryland	250.2	63,334	175,424	329	119	36.3	573
Massachusetts	557.9	86,708	234,772	536	198	81.2	936
Michigan	1,231.4	213,163	646,087	481	159	155.9	731
Minnesota	337.8	54,696	163,483	515	172	32.0	585
Mississippi	85.3	59,967	180,380	119	39	9.7	161
Missouri	214.7	67,778	203,649	264	88	27.0	399
Montana	41.4	9,544	28,383	362	122	3.4	358
Nebraska	56.3	14,677	42,685	320	110	9.7	664
Nevada	20.4	6,234	17,294	273	98	5.0	797
New Hampshire	21.1	4,312	11,212	407	157	4.6	1,072
New Jersey	456.7	106,792	312,878	356	122	101.1	947
New Mexico	56.2	20,753	59,002	225	79	11.2	541
New York	2,140.1	340,890	1,010,780	523	176	380.9	1,118
North Carolina	205.6	70,586	182,842	243	94	42.4	601

TABLE 19.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES AND RECIPIENTS, TOTAL BENEFIT PAYMENTS AND ADMINISTRATIVE COSTS, AND AVERAGE PAYMENT PER FAMILY AND PERSON, FISCAL YEAR 1988 (PRELIMINARY DATA) [1]—Continued

State	Total assistance payments (millions)	Average monthly caseload	Average monthly recipients	Average payment per		Total administrative costs (in millions) [2]	Annual administrative cost per AFDC family
				Family	Person		
North Dakota	21.9	5,219	14,471	350	126	5.6	1,067
Ohio	805.3	225,541	647,730	298	104	66.6	295
Oklahoma	118.5	35,454	101,979	278	97	33.9	955
Oregon	128.1	30,684	83,794	348	127	38.1	1,242
Pennsylvania	746.8	179,329	538,040	347	116	129.1	720
Puerto Rico	66.7	54,857	177,360	101	31	19.6	358
Rhode Island	81.6	15,104	41,992	450	162	8.6	572
South Carolina	91.2	40,874	116,758	186	65	20.4	500
South Dakota	21.0	6,495	18,554	270	94	5.9	908
Tennessee	125.4	67,531	185,757	155	56	31.3	463
Texas	344.1	169,403	507,703	169	56	57.5	339
Utah	61.3	14,890	43,775	343	117	10.5	707
Vermont	40.2	7,141	20,170	469	166	6.8	957
Virgin Islands	2.3	989	3,510	196	55	.5	556
Virginia	168.6	54,749	144,630	257	97	46.4	848
Washington	401.4	75,546	211,486	443	158	50.6	670
West Virginia	106.9	37,401	110,798	238	80	9.5	255
Wisconsin	505.9	89,109	269,581	473	156	26.3	295
Wyoming	18.6	5,122	13,505	303	115	2.9	571
U.S. total	16,644.5	3,747,798	10,920,275	$370	$127	2,352.7	$628

[1] Administrative cost data for the fourth quarter for New Jersey were averages based on the prior three quarters.

[2] Administrative costs includes Other State and Local, Work Program, ADP, Training, FAMIS, Fraud and SAVE expenditures.

Source: Office of Family Assistance, Family Support Administration, January 1989.

TABLE 20.—HISTORICAL TRENDS IN AFDC ENROLLMENTS AND AVERAGE PAYMENTS

Fiscal year	Average monthly number of (in thousands)					Average monthly benefit	
	Families [1]	Recipients [1]	Children [1]	Unemployed parent families	Unemployed parent recipients	Family	Recipient
1970	1,909	7,429	5,494	78	420	$178	$46
1971	2,532	9,556	6,963	143	726	180	48
1972	2,918	10,632	7,698	134	639	187	51
1973	3,123	11,038	7,965	120	557	187	53
1974	3,170	10,845	7,824	95	434	194	57
1975	3,342	11,067	7,928	101	451	210	63
1976	3,561	11,339	8,156	135	593	226	71
1977	3,575	11,108	7,818	149	659	242	78
1978	3,528	10,663	7,475	127	567	250	83
1979	3,493	10,311	7,193	113	504	257	87
1980	3,642	10,597	7,320	141	612	274	94
1981	3,871	11,160	7,615	209	881	277	96
1982	3,569	10,431	6,975	232	976	300	103
1983	3,651	10,659	7,051	272	1,144	311	106
1984	3,725	10,866	7,153	287	1,222	322	110
1985	3,692	10,813	7,165	261	1,131	339	116
1986	3,747	10,995	7,294	253	1,101	352	120
1987	3,784	11,065	7,381	236	1,035	359	123
1988	3,748	10,920	7,326	210	929	370	127
1989	3,743	10,889	NA	200	890	376	129
1990	3,755	10,909	NA	203	896	384	132
1991	3,807	11,040	NA	237	989	392	135
1992	3,843	11,121	NA	250	1,019	399	138
1993	3,864	11,165	NA	249	1,007	404	140
1994 [2]	3,875	11,208	NA	247	1,000	409	142

[1] Includes unemployed parent families and, for 1971–81, foster care children.

[2] Projection under current law.

[3] Preliminary data.

Source: Office of Family Assistance and Office of Financial Management, Family Support Administration.

The number of AFDC *families* rose more than 50 percent from 1971 to 1981, reaching a high of 3.9 million (monthly average) in 1981. In 1982, after OBRA took effect, the number dropped 8 percent, but in 1983 it rose 2.3 percent. Enrollment in 1988 is still slightly below that of 1981.

TABLE 21.—NUMBER OF AFDC RECIPIENTS, AND AS A PERCENTAGE OF VARIOUS POPULATION GROUPS

Calendar year	Total AFDC recipients	AFDC child recipients	Total population ages 0–17	AFDC recipients as a percent of total population [1]	AFDC child recipients as a percent of total child population	AFDC recipients as a percent of poverty population [2]	AFDC child recipients as a percent of children in poverty [3]
1970	8,303	6,104	69,762	4.05	8.75	NA	59.6
1971	10,043	7,303	69,809	4.84	10.46	NA	70.6
1972	10,736	7,766	69,414	5.11	11.19	NA	77.0
1973	10,738	7,763	68,764	5.07	11.29	NA	82.3
1974	10,621	7,684	67,987	4.97	11.30	NA	77.1
1975	11,131	7,952	67,168	5.15	11.84	NA	73.1
1976	11,098	7,850	66,251	5.09	11.85	NA	77.9
1977	10,856	7,632	65,463	4.93	11.66	NA	76.1
1978	10,387	7,270	64,775	4.67	11.22	NA	74.8
1979	10,140	7,057	64,105	4.51	11.01	54.5	69.2
1980	10,599	7,295	63,695	4.65	11.45	49.2	64.2
1981	10,893	7,397	63,284	4.73	11.69	47.1	60.0
1982	10,161	6,767	62,953	4.37	10.75	40.6	50.2
1983	10,569	6,967	62,780	4.50	11.10	41.9	50.6
1984	10,645	7,017	62,772	4.49	11.18	43.6	52.9
1985	10,672	7,074	62,992	4.46	11.23	45.0	55.2
1986	10,850	7,206	63,271	4.49	11.39	46.6	56.8
1987	10,841	7,240	63,400	4.45	11.42	46.7	56.4

[1] This information can be found in appendix J, table 3.

[2] Poverty population is determined by the number of people whose income (cash income plus social insurance plus Social Security before taxes and means-tested transfers) falls below the appropriate poverty threshold. This information can be found in appendix I, table 8.

[3] This information can be found in appendix I, table 2.

NA: Poverty population data is not available for this time period.

Note: All population numbers represent U.S. resident population. In calculating the number of AFDC recipients, data for Guam, Puerto Rico, and the Virgin Islands was subtracted from the total AFDC population. Data for these territories was not available for 1970–76, so an estimate was used based on the ratio in later years of the number of recipients in these areas to the total number of recipients.

Table 21 shows the number of total AFDC recipients and the number of child recipients for 1970 to 1987, and shows these numbers as percentages of the total population and the poverty population, respectively. As a percentage of the total population, AFDC recipients have fallen about half a percentage point from the early 1970s to 1987. The percentage of children receiving AFDC has remained relatively constant at around 11 percent since 1972, hitting a low of 10.75 percent in 1982. As a percentage of children in poverty, child AFDC recipients have fallen from a high of 82.3 percent in 1973 to a low of 50.2 percent in 1982, and have risen slightly to 56.4 percent in 1987.

CHARACTERISTICS OF AFDC FAMILIES

This section describes the characteristics of AFDC families, using two main sources of data. For years through 1979, the sources were individual surveys of similar design specially conducted to gather information from agency case files. For 1982 and later years, data were derived from information collected from cases within the National Integrated Quality Control System's (NIQCS) monthly sample of cases.

As noted before, Congress changed AFDC rules significantly in 1981. The new rules primarily affected families with earnings and children living with their stepparents. For most such families, benefits were ended or reduced. In 1984, Congress again revised the AFDC program rules, restoring eligibility to some of the families affected by the 1981 changes. As also noted earlier, Congress again changed AFDC rules when it passed the Family Support Act of 1988; these changes, however, are not effective until after 1988 and therefore are not reflected in the data.

Table 22 shows that the share of AFDC families with earnings fell more than 39 percent from March 1979 to 1987, from 12.8 percent to 7.8 percent. The share of families with no reported income other than AFDC climbed from 80.6 percent in 1979 to 87.8 percent in 1984, and fell to 80.6 percent by 1987. Moreover (table 24), the average amount of support contributed by stepparents (and in 1982 and thereafter deemed from them) more than doubled, from $63 per family in March 1979 to $169 in 1987.

Table 22 also shows the trend in other selected characteristics of AFDC families from 1969 to 1987. During this period, the average family size decreased from 4.0 persons to 3.0, the percent of families participating in the food stamp program increased, and the share of AFDC households with nonrecipient members climbed.

Among the 1984 changes made by Congress is the provision which for the first time establishes a standard definition of the AFDC assistance unit. Under this new policy, the parent(s) in the home and all minor related children must be included in the AFDC unit except SSI recipients. According to the 1987 quality control data, 37 percent of the total AFDC caseload lives with others who are not part of the AFDC unit. Some of these families were affected by the standard filing unit provision enacted in 1984. According to May 1982 quality control data:

—Most of the mothers who had been excluded from the AFDC unit but were collecting AFDC for their children were 21 years of age or older (79 percent). Only 16 percent of the mothers who had excluded themselves from the AFDC unit were under the age of 20.

—Most of the mothers who were living with their children but excluded from the AFDC unit were living with other relatives. These relatives could be grandparents, siblings, or other relatives of the AFDC children. Only 6 percent of the mothers were living with nonrelatives.

—The 212,000 cases where the mother was in the home but excluded from the AFDC unit were distributed as follows: (1) in 5 percent of the cases another adult was included in the AFDC unit; (2) in 93 percent of the cases, only children formed the AFDC unit. These children lived with other adults (64,000 cases), other adults and children (37,000 cases), stepparents (36,000), or adults who were receiving SSI (62,000 cases).

—In 1.038 million cases the mother was included in the AFDC unit but the family was living with other people. These cases are distributed as follows: (1) in 516,000 cases the persons outside the AFDC unit were adults; (2) in 254,000 cases adults and children were in the household but not in the assistance unit; (3) in 142,000 cases children were the only other persons in the household who were not receiving AFDC; (4) in 85,000 cases the adults and children who had been excluded from the AFDC unit were receiving SSI; and (5) in 42,000 cases the persons outside the AFDC unit were stepparents.

—The cases in which only children had been excluded from the unit or in which a parent and child(ren) had been excluded were far more likely to be located in the South. For example, 44.6 percent of the cases adding a child to the unit were in the South but only 26.2 percent of the total caseload lived in the South.

Table 22 indicates that the share of AFDC families with no more than two children rose from 49.6 percent in 1969 to 73.2 percent in 1987. The share of AFDC families with a mother (or other caretaker relative) younger than 20 declined from 1975 to 1987, and the percentage of families reporting no father in the home rose from 84.7 percent in 1979 to 90.6 percent in 1987.

TABLE 22.—AFDC CHARACTERISTICS, 1969–87

	May 1969	January 1973	May 1975	March 1979	1983 [1]	1984 [1]	1986 [1]	1987 [1]
Average family size (persons)	4.0	3.6	3.2	3.0	3.0	2.9	3.0	3.0
Number of child recipients (percent of AFDC cases):								
One	26.6	NA	37.9	42.3	43.4	44.1	42.7	42.7
Two	23.0	NA	26.0	28.1	29.8	29.6	30.8	30.5
Three	17.7	NA	16.1	15.6	15.2	15.5	15.9	16.2
Four or more	32.5	NA	20.0	13.9	10.1	10.0	9.8	10.1
Unknown		NA			1.5	.8	.8	.6
Basis for eligibility (percent children):								
Parents present:								
Incapacitated	[2] 11.7	10.2	7.7	5.3	3.4	3.6	3.2	3.5
Unemployed	[2] 4.6	4.1	3.7	4.1	8.7	8.6	7.4	7.9
Parents absent:								
Death	[2] 5.5	5.0	3.7	2.2	1.8	1.9	1.9	1.8
Divorce or separation	[2] 43.3	46.5	48.3	44.7	38.5	38.2	36.3	35.4
No marriage tie	[2] 27.9	31.5	31.0	37.8	44.3	46.4	48.9	50.0
Other reason	[2] 3.5	3.6	4.0	5.9	1.4	1.2	2.4	1.3
Unknown					1.7			
Education of mother (percent of mothers): [3]								
8th Grade or less	29.4	NA	16.7	9.5	NA	NA	4.8	4.9
1–3 years of HS	30.7	NA	31.7	20.8	NA	NA	14.3	14.1
High School Degree	16.0	NA	23.7	18.8	NA	NA	17.3	17.4
Some College	2.0	NA	3.9	2.7	NA	NA	3.4	3.4
College Graduate	.2	NA	.7	.4	NA	NA	.5	.4
Unknown	21.6	NA	23.3	47.8	NA	NA	59.7	59.7
Age of mother (percent of mothers):								
Under 20	6.6	NA	8.3	[4] 4.1	[4] 3.6	NA	[4] 3.3	[4] 3.3
20 to 24	16.7	NA	(5)	[6] 28.0	[6] 28.6	NA	[7] 33.6	[7] 32.2
25 to 29	17.6	NA	(5)	[8] 21.4	[8] 23.8	NA	[9] 20.0	[9] 20.4
30 to 39	30.4	NA	27.9	[8] 27.2	[8] 27.9	NA	[8] 30.1	[8] 30.8
40 or over	25.0	NA	17.6	[8] 15.4	[8] 15.7	NA	[8] 13.0	[8] 13.3
Unknown	3.6	NA	3.0	[8] 4.0	[8] 0.3	NA	0	0
Ages of children (percent of recipient children):								
Under 3	14.9	NA	16.5	18.9	22.5	21.6	21.9	21.8
3 to 5	17.6	NA	18.1	17.5	20.1	21.0	21.1	21.1
6 to 11	36.5	NA	33.7	33.0	31.5	31.9	32.4	33.0
12 and over	31.0	NA	30.9	29.8	25.5	25.5	24.3	23.9
Unknown		NA	.8	.9	.3	.2	.1	.1
Mother's employment status (percent):								
Full-time job	8.2	9.8	10.4	8.7	1.5	1.2	1.6	1.9
Part-time job	6.3	6.3	5.7	5.4	3.4	3.6	4.2	3.9
Presence of income (percent families):								
With earnings	NA	16.3	14.6	12.8	5.7	6.0	7.5	7.8
No non-AFDC income	56.0	66.9	71.1	[10] 80.6	[10] 86.8	[10] 87.8	[10] 81.3	[10] 80.6
Median months on AFDC since most recent opening	23.0	27.0	31.0	29.0	26.0	26.0	27.0	26.9

TABLE 22.—AFDC CHARACTERISTICS, 1969–87—Continued

	May 1969	January 1973	May 1975	March 1979	1983 [1]	1984 [1]	1986 [1]	1987 [1]
Race (percent parents) [11]								
White	NA	38.0	39.9	40.4	41.8	41.3	39.7	38.8
Black	45.2	45.8	44.3	43.1	43.8	41.9	40.7	39.8
Hispanic	NA	13.4	12.2	13.6	12.0	12.8	14.4	15.5
Native American	1.3	1.1	1.1	1.4	1.0	1.1	1.3	1.3
Asian	NA	NA	.5	1.0	1.5	2.3	2.3	2.6
Other and unknown	4.8	1.7	2.0	.4	NA	.6	1.4	2.0
Incidence of households (percent):								
Living in public housing	12.8	13.6	14.6	NA	10.0	10.1	9.6	9.9
Participating in food stamp or donated food program	52.9	68.4	75.1	75.1	83.0	80.1	80.7	82.9
Including nonrecipient members	33.1	34.9	34.8	NA	36.9	36.9	36.7	37.0
Father's relationship to youngest child (percent):								
No father	NA	NA	NA	84.7	89.8	89.8	91.2	90.6
Natural father	NA	NA	NA	9.6	NA	NA	NA	NA
Adoptive father	NA	NA	NA	.0	NA	NA	NA	NA
Stepfather	NA	NA	NA	5.6	NA	NA	NA	NA

[1] Data are for the Federal fiscal year October through September. All percentages are based on the average monthly caseload during the year. Hawaii and the territories are not included in 1983. Territories are not included in 1984, 1986, and 1987 data include Hawaii and the territories.

[2] Calculated on the basis of total number of families.

[3] For 1986 and 1987, education is for all AFDC adult recipients.

[4] Under age 19. Includes other caretaker adult if mother absent.

[5] The percentage for 20 to 29 year olds was 43.1.

[6] Ages 19–24. Includes other caretaker adult if mother absent.

[7] Ages 19–25 in 1986 and 1987. Includes other caretaker if mother absent.

[8] Includes other caretaker adult if mother absent.

[9] Ages 26–29 in 1986 and 1987. Includes other caretaker if mother absent.

[10] State collected child support directly beginning in 1975, removing one source of non-AFDC income.

[11] For 1983, 12.6 percentage points where race was unknown were allocated proportionately across all categories. For 1984, 3.6 percent unknown were distributed proportionately within States reporting large proportions of unknown.

NA Not available.

Source: Office of Family Assistance, Family Support Administration and Congressional Budget Office.

Table 23 presents data about the employment status of the AFDC mother (or other caretaker relative), information about her status with the work incentive program (WIN), and data about the tenure of the existing AFDC caseload.

The table indicates that the share of mothers (or other caretaker relatives) working full time declined from 8 percent in March of 1979 to 1.9 percent in 1987; the share working part-time fell from 5.0 percent to 3.9 percent in the same period.

The table also indicates that the share of families who received benefits for more than 5 years (since the most recent opening of their case) declined slightly from 26.9 percent in 1979 to 25.8 percent in 1987.

TABLE 23.—EMPLOYMENT AND WIN STATUS OF AFDC MOTHERS, TENURE OF AFDC FAMILIES, MARCH 1979, MAY 1982, FISCAL YEARS 1983, 1984, 1986, AND 1987 [1]

	Percent of total caseload					
	March 1979 [2]	May 1982 [3]	1983 [4]	1984 [4]	1986 [4]	1987 [4]
WIN status of mother (or other caretaker):						
No mother or (caretaker) mother not receiving payment	18.0	12.2	8.7			
Mandatory registrant	20.6	25.9	28.8	30.3	36.3	36.0
Voluntary registrant	4.1	1.6	1.8	2.5	2.3	3.7
Ill or incapacitated	4.1	3.0	3.8	3.2	3.4	3.6
Child or other care	43.1	40.6	43.0	51.4	46.5	44.6
No WIN project	7.2	10.5	NA	NA	NA	NA
Other	2.9	6.2	10.8	10.7	8.4	9.0
Unknown	NA	NA	3.2	2.0	3.1	3.1
Employment status of mother (or other caretaker):						
No mother (caretaker)	8.3	12.2	8.7			
Full-time work, 35 or more hours per week	8.0	1.3	[5] 1.5	[5] 1.2	[5] 1.6	[5] 1.9
Part-time work, fewer than 35 hours per week	5.0	4.3	[5] 3.4	[5] 3.7	[5] 4.2	[5] 3.9
Incapacitated	6.0	NA	4.1	3.3	3.4	3.5
At school	2.6	NA	2.0	1.7	1.9	2.0
On layoff	.5	NA	.8	.4	.2	.2
Seeking work	9.1	NA	NA	21.8	27.3	26.9
Other—needed at home or not actively seeking work	60.5	82.2	79.5	64.8	58.3	57.4
Number of months on AFDC since most recent opening (percent of cases):						
1 to 6 months	16.4	20.0	18.9	18.1	17.2	17.2
7 to 12 months	12.5	12.4	13.1	12.8	12.6	12.9
13 to 24 months	16.7	16.2	16.6	17.8	17.2	17.0
25 to 36 months	11.4	12.6	12.0	11.4	11.8	12.1
37 to 60 months	15.3	14.2	15.4	16.2	14.9	14.8
61 plus months	26.9	23.5	23.7	23.4	25.9	25.8
Unknown	.8	1.1	.3	.1	.4	.3

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[1] See text about difference in data sources for 1979 and 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, FSA.

[4] Fiscal year average monthly. 1983 does not include Hawaii or the territories. 1984 and 1986 data do not include the territories. 1987 data include the territories and Hawaii.

[5] Full-time work, 30 hours or more per week; part-time work, fewer than 30 hours per week.

NA=Not available.

Table 24 presents data on income sources of AFDC families. It indicates that the share of AFDC families with earnings from the mother (or other caretaker relative) or from the spouse of the caretaker relative declined from 12.0 percent in March 1979 to 6.3 percent in 1987. Further, according to the table, the average monthly amount earned dropped in nominal terms from $382 to $282 for mothers with earnings; and from $323 to $276 for fathers (or spouses of caretaker relatives) with earnings.

TABLE 24.—INCOME SOURCES OF AFDC FAMILIES,[1] MARCH 1979,[2] MAY 1982,[3] FISCAL YEARS 1984, 1986 AND 1987

Income source	Percentage of caseload with income type					Average amount for those with income type				
	March 1979	May 1982	1984	1986 [4]	1987 [4]	March 1979	May 1982	1984 [4]	1986 [4]	1987 [4]
Earned income:										
Mother (or caretaker relative)	12.0	5.3	5.2	6.2	6.3	$382	$261	$245	$264	$282
Father (or spouse of caretaker relative)	.6	.4	.6	1.0	1.3	323	244	270	271	276
Children (14+)	.1	(5)	.2	.3	.3	206	398	237	323	265
Other adults	.1	NA	NA	.2	.2	265	NA	NA	420	551
Public service	.1	NA	NA	NA	NA	246	NA	NA	NA	NA
OASDI	3.1	2.5	1.9	2.0	2.3	134	145	201	207	213
Veterans' benefits	.4	NA	NA	.2	.2	128	NA	NA	139	112
Other government income	.4	.4	.4	.3	.3	143	134	217	131	107
Unemployment compensation	.7	1.0	.7	.7	.8	238	255	290	289	276
Workmen's compensation	.1	(4)	NA	.1	.1	237	200	NA	299	359
Deemed income	.2	.3	NA	.1	—	63	159	NA	153	169
Contributions from other persons	.6	.9	NA	NA	1.3	72	79	NA	NA	90
Other cash income	1.9	2.5	[6] 2.9	[6] 2.0	1.8	81	251	103	128	78
In-kind income	.4	NA	NA	NA	NA	71	NA	NA	NA	NA
Total	19.4	NA	12.2	18.7	19.4	299	NA	225	228	230

[1] See text about differences in data sources for 1979 and 1982.
[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.
[3] Source: Office of Family Assistance, FSA.
[4] Fiscal year average monthly. 1984 and 1986 data do not include the territories. 1987 data include both Hawaii and the territories.
[5] Less than 0.05 percent.
[6] Includes Federal SSI, State SSI, general assistance, income from assets and property and other unearned income.

NA—Not available.

Table 25 provides data on the share of AFDC families whose benefits were based on less than their gross cash income. That is, it summarizes information about disregarded (uncounted) income.

The table shows a decline in the share of families receiving the work incentive disregard (exclusion of the first $30 earned monthly plus one-third of the rest of earnings). This work incentive bonus was repealed in 1981, except for the first 4 months of a job. It indicates that the average amount of child care costs disregarded declined from $101 monthly in March 1979 (for those with such costs) to $86 in May 1982, increased to $93 in 1984, and increased to $111 in 1987.

TABLE 25.—INCOME OF AFDC FAMILIES NOT COUNTED BY THE PROGRAM,[1] MARCH 1979,[2] MAY 1982,[3] FISCAL YEARS 1984,[4] 1986, AND 1987

Disregards	Percent of caseload with disregard					Average amount for those with disregard				
	March 1979	May 1982	1984	1986	1987	March 1979	May 1982	1984	1986	1987
Optional $5 disregard	1.1	(5)	(5)	(5)	(5)	$6	(5)	(5)	(5)	(5)
$30 and one-third of earned income	12.5	[6] 2.5	2.1	3.8	3.8	147	[6] $62	$90	[7] $76	$78
Child care	3.9	1.3	1.0	1.5	1.4	101	86	93	106	111
Other work expenses	8.4	5.2	4.9	6.2	6.5	95	54	60	76	76
Cases with child care and other work expenses [8]	3.0	NA	NA	NA	....	100	NA	NA	NA	NA
Child support	.1	(9)	NA	3.0	4.1	93	NA	NA	[10] 47	[10] 47
Other	1.6	.4	NA	NA	NA	77	100	NA	NA	NA
Total	13.8	NA	5.0	6.3	6.2	250	NA	116	146	144

[1] See text about differences in data sources for March 1979 and May 1982.
[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.
[3] Source: Office of Family Assistance, FSA.
[4] Average monthly for fiscal years.
[5] Repealed by 1981 law.
[6] Limited to 4 months' duration by 1981 law.
[7] $30 disregard extended for 8 months after end of $30 plus one-third by 1984 law.
[8] In these cases, there was insufficient information in the data file to distinguish between child care and other work expenses.
[9] Less than 0.05 percent.
[10] Average amount of $50 child support passthrough.

NA—Not available.

The AFDC recipient population is not a homogenous group of families or individuals, as illustrated in table 26. The table subdivides the AFDC caseload into seven mutually exclusive and exhaustive groups. Column one of the table contains data on the entire caseload. Column two of the table describes the AFDC units with no adult recipients. They represent 9.9 percent of the AFDC units and 6.9 percent of total payments. The average payment per case is $247 per month.

Columns 3–6 represent characteristics of the more typical AFDC units—one adult with children. The one adult caseload was split into four groups based on the reason for deprivation of the youngest child. Column three includes those cases with one adult for whom the reason for AFDC eligibility is that the other adult is absent because they are not married; these represent 48.4 percent of AFDC units.

The final two columns (columns seven and eight) of the table present characteristics of cases with two adult recipients. Column eight represents those cases where one parent is incapacitated, and column seven presents data on the unemployed parents (AFDC–UP) program caseload. In total, they represent about 8.3 percent of the total caseload and receive about 12.0 percent of the total payments. The cases where one parent is incapacitated tend to be older, as demonstrated by both the age of the mother and the age of the youngest child.

TABLE 26.—1987 AFDC CHARACTERISTICS

			One adult				Two adult	
	Total	No adult	Not married	Divorced or legally separated	Not legally separated or divorced	Other reasons	Unemployed parent	Other
Number of families (in thousands) [1]	3,776	374	1,827	525	526	211	226	87
Percent of total	100.0	9.9	48.4	13.9	13.9	5.6	6.0	2.3
Average monthly payment	$353	$247	$342	$356	$375	$350	$548	$411
Percent of total dollars paid out	100.0	6.9	46.8	14.0	14.8	5.5	9.3	2.7
Average number in assistance unit	3.0	1.7	2.9	2.9	3.2	2.6	4.6	4.3
Food Stamps:								
Percent participating	83.4	57.1	84.8	86.9	88.3	82.0	94.7	91.1
	Percentage Distribution							
Number of recipients:								
One	6.9	58.4	0.0	0.0	0.0	16.4	0.0	0.0
Two	37.1	24.8	46.7	39.3	32.1	35.9	0.0	4.3
Three	28.3	11.5	29.3	36.7	33.6	22.4	21.1	28.6
Four	16.2	3.6	14.7	17.1	21.4	12.3	32.6	31.5
Five	7.0	1.2	5.8	5.0	8.6	4.9	24.6	19.0
Six	2.8	.4	2.2	1.4	3.1	2.7	12.7	7.9
Seven or more	1.7	.1	1.3	.5	1.3	1.6	9.0	8.7
Number of nonrecipients:								
Zero	62.7	2.5	67.4	70.6	73.1	51.4	85.8	81.5
One	16.4	40.5	13.2	15.5	12.1	25.9	8.5	9.6

TABLE 26.—1987 AFDC CHARACTERISTICS—Continued

			One adult				Two adult	
	Total	No adult	Not married	Divorced or legally separated	Not legally separated or divorced	Other reasons	Unemployed parent	Other
Two	9.3	24.7	8.1	7.6	7.3	10.0	3.1	4.0
Three or more	11.5	32.3	11.3	6.3	7.6	12.7	2.7	4.9
Shelter:								
Owns or buying	5.0	7.2	2.0	8.1	4.7	7.5	11.1	18.3
Public housing	10.3	7.6	12.3	7.4	10.1	9.7	7.0	9.3
HUD rent subsidy	10.3	4.7	11.7	12.5	9.6	8.3	6.8	7.7
Other subsidy	1.6	1.2	1.8	2.1	1.2	1.2	1.5	1.5
Private housing	65.4	66.4	64.1	64.7	67.9	65.6	72.0	59.0
Rents free	1.7	1.7	2.0	1.4	1.3	2.1	.3	.7
Group quarters	5.7	11.2	6.0	3.7	5.1	5.6	1.3	3.4
Number of child recipients:								
Zero or one	43.2	58.5	47.0	39.4	32.6	46.3	21.7	32.3
Two	30.5	24.9	29.2	36.7	33.4	26.4	32.5	32.9
Three	16.2	11.5	14.6	17.0	21.3	14.4	24.5	17.5
Four or more	10.0	5.1	9.2	6.8	12.7	12.9	21.3	17.3
Race of caretaker: [1]								
White	40.3	31.3	28.0	72.2	41.1	44.2	65.8	56.1
Black	40.9	44.2	57.5	16.4	33.0	32.1	9.4	12.7
Asian or Hispanic	18.8	26.6	15.0	11.8	26.0	24.3	25.4	32.4
American Indian	1.3	1.9	1.2	1.2	1.2	1.3	1.0	1.1
Age of youngest child in AFDC unit: [1]								
Under 3	38.9	21.7	47.5	13.5	34.3	57.9	49.6	44.6
3 to 5	22.3	17.4	23.6	23.5	25.1	10.5	22.1	16.7
6 to 11	24.7	30.9	20.5	38.6	25.6	17.4	19.7	23.2
12 to 15	10.4	19.9	6.5	17.4	10.3	13.3	6.4	17.2
16 to 18	4.4	10.5	2.2	6.9	4.5	6.3	2.0	6.3
Number of months continuously on AFDC								
6 or less	17.2	13.8	13.4	19.4	22.5	30.0	20.6	24.9
7 to 12	12.9	12.9	12.2	13.9	14.6	10.7	14.8	13.2
13 to 18	9.5	8.8	9.5	10.2	9.6	7.6	10.2	9.7
19 to 24	7.6	7.3	7.6	7.7	8.0	6.9	8.4	6.0
25 to 36	12.1	11.2	12.6	12.6	11.7	10.8	11.5	11.4
37 to 48	8.4	9.5	8.7	8.9	7.3	5.2	9.6	7.1
49 to 60	6.4	6.5	6.9	6.1	4.9	6.4	7.3	6.3
61 to 120	18.3	20.1	20.1	15.6	16.2	16.4	15.4	15.8
121 to 180	5.2	6.5	6.2	4.4	3.4	3.8	2.1	4.2
181 and up	2.3	3.3	2.8	1.2	1.8	2.3	.2	1.5
Age of female adult recipient: [1]								
11 to 18	3.1	NA	4.2	.3	1.3	5.6	2.4	2.5
19 to 21	11.8	NA	15.7	3.4	8.0	15.0	7.7	5.6
22 to 25	20.5	NA	23.9	13.2	17.8	18.6	20.3	14.8
26 to 29	20.6	NA	20.9	21.7	21.8	15.2	20.2	15.6
30 to 34	19.1	NA	17.0	26.0	21.4	13.0	21.6	15.9
35 to 39	11.8	NA	9.4	18.5	13.2	9.4	14.0	17.0
40 and up	13.0	NA	9.0	17.1	16.5	23.2	13.9	28.7
AFDC female adults employment status: [1]								
Employed part-time	2.0	NA	1.5	3.5	2.4	1.3	1.8	2.0
Employed full-time	3.9	NA	3.1	7.4	3.5	2.2	4.2	3.3

TABLE 26.—1987 AFDC CHARACTERISTICS—Continued

			One adult				Two adult	
	Total	No adult	Not married	Divorced or legally separated	Not legally separated or divorced	Other reasons	Unemployed parent	Other
Employed other	0.2	NA	.1	.4	.2	.1	.2	.2
Not employed	65.8	NA	69.3	50.6	65.7	70.6	67.6	71.7
Unemployed	28.2	NA	26.0	38.2	28.2	25.8	26.2	22.7
AFDC male adult work program status: [1]								
Registered	69.5	NA	53.0	69.8	64.8	49.1	87.2	29.8
Exempt	32.3	NA	49.2	33.9	36.5	54.9	14.2	72.7
AFDC adults exempt from work programs—reasons for exemption:								
Aged, poor health	6.6	NA	3.3	8.8	5.8	25.8	1.6	30.6
Child under age	75.1	NA	84.0	61.7	77.6	54.0	65.6	34.3
Student and/or employed	2.3	NA	1.3	5.0	2.9	1.5	3.4	3.8
Other	16.1	NA	11.4	24.5	13.6	18.7	29.4	31.2
Percent with non-AFDC income	19.4	4.3	16.7	30.8	18.5	22.3	30.5	31.4
Average monthly amount of income [2]	$230	$218	$201	$212	$225	$242	$311	$339
Percent with earned income	7.8	.5	6.1	13.0	7.6	4.5	21.5	12.5
Average monthly earned income [2]	$292	$294	$277	$288	$299	$259	$300	$264
Percent of earned income disregarded	41.8	4.6	45.8	42.7	42.6	49.4	38.6	40.7
Percent with unearned income	12.7	3.8	11.2	20.2	12.0	18.5	11.3	20.4
Average amount of unearned income [2]	$171	$208	$147	$138	$156	$228	$268	$359
Percent with countable assets	17.9	8.1	12.8	31.4	16.7	18.0	40.9	29.9
Income of persons not in assistance unit:								
Percent with income	44.0	90.8	25.6	26.2	24.1	50.7	21.5	28.0
Average monthly amount [2]	$465	$466	$468	$476	$416	$479	$435	$555
Percent with earned income	5.8	6.7	5.5	8.4	4.4	4.0	3.2	2.5
Percent with public assistance income	37.5	89.3	17.4	15.0	16.7	44.4	17.3	22.6
Percent with unearned income	9.8	18.2	6.5	6.1	5.1	15.1	2.4	7.1

[1] "Unknown" category proportionally allocated.
[2] Average for those with income.
NA = Not applicable.

Source: Family Support Administration.

Tables 27 through 30 present selected 1987 characteristics of the AFDC population by State. Table 27 presents selected demographic characteristics, including the number of persons in the AFDC unit and household, the percent of units with household members not in the unit, the percent of units with no adult recipients and with one adult recipient, and the percentage distribution of the units by age of youngest child and race of parent. Table 28 presents selected income characteristics, including the percent of units with earned income, unearned income, and various income disregards. This table also supplies the average monthly amount of these sources of income for those receiving them. Finally, table 28 provides information on the percent of units participating in the food stamp program. Table 29 provides a detailed percentage distribution of AFDC units by shelter arrangement. Table 30 provides a detailed percentage distribution of AFDC units by the reason for deprivation of the youngest child.

TABLE 27.—SELECTED DEMOGRAPHIC CHARACTERISTICS OF AFDC UNITS, BY STATE, OCTOBER 1986–SEPTEMBER 1987

State	Average number in unit	Average number in household of unit	Percent of units			Percentage distribution by age of youngest child [1]			Percentage distribution by race of natural/adoptive parent [1] [2]		
			With household members not in unit	With no adult recipient	With 1 adult recipient	0–2 yrs.	3–5 yrs.	6 or more yrs.	White	Black	Hispanic
Alabama	3.0	4.6	60.6	13.0	85.6	39.0	21.4	39.4	18.9	80.9	0
Alaska	2.8	3.6	31.5	5.8	84.5	38.5	25.8	35.1	53.0	7.3	.6
Arizona	2.9	4.2	52.8	12.6	85.0	43.6	20.9	34.7	32.5	12.5	34.9
Arkansas	2.9	4.6	59.8	15.9	83.1	36.6	22.2	41.0	31.5	68.1	.1
California	3.0	4.1	49.8	15.5	68.8	39.8	22.8	36.8	32.8	20.9	28.5
Colorado	2.9	3.0	5.7	5.6	91.2	42.1	22.8	34.4	40.1	17.6	39.5
Connecticut	2.9	3.6	34.6	8.9	89.1	39.6	23.1	36.9	30.9	34.9	32.3
Delaware	2.9	3.6	32.4	13.5	83.3	38.7	23.0	37.1	27.7	65.4	6.9
Dist. of Columbia	2.7	3.8	51.0	14.2	83.2	36.0	21.6	40.0	.9	98.3	.8
Florida	2.9	4.2	55.8	18.8	80.3	43.8	21.0	34.9	26.1	61.5	11.8
Georgia	2.8	4.1	48.4	15.6	83.5	36.8	22.2	40.7	21.3	78.4	.1
Hawaii	3.0	3.3	14.2	5.7	78.8	41.9	23.5	33.2	25.6	1.7	1.9
Idaho	2.8	3.1	18.8	4.6	90.4	40.7	22.8	36.1	86.1	1.2	7.4
Illinois	3.1	3.8	35.1	7.1	84.7	40.7	21.2	37.0	28.4	62.4	8.7
Indiana	2.9	4.0	45.5	6.7	90.9	35.1	23.4	41.3	54.1	38.3	2.7
Iowa	2.9	3.2	15.5	4.7	80.3	35.4	23.5	40.6	87.4	9.8	.8
Kansas	3.0	3.7	35.6	9.1	75.8	43.6	23.2	32.4	64.8	27.0	4.2
Kentucky	2.7	3.8	50.8	13.2	85.0	30.8	21.5	47.7	76.0	23.5	.2
Louisiana	2.9	4.5	58.0	11.9	86.7	40.3	19.3	39.5	17.3	81.9	.3
Maine	2.9	3.5	35.1	6.4	80.2	34.5	22.1	43.3	16.0	.3	0

TABLE 27.—SELECTED DEMOGRAPHIC CHARACTERISTICS OF AFDC UNITS, BY STATE, OCTOBER 1986–SEPTEMBER 1987—Continued

State	Average number in unit	Average number in household of unit	Percent of units			Percentage distribution by age of youngest child [1]			Percentage distribution by race of natural/adoptive parent [1] [2]		
			With household members not in unit	With no adult recipient	With 1 adult recipient	0–2 yrs.	3–5 yrs.	6 or more yrs.	White	Black	Hispanic
Maryland	2.8	3.8	46.0	6.9	89.0	39.4	24.0	36.1	27.2	70.5	.7
Massachusetts	2.9	3.3	17.8	4.4	86.5	35.8	27.3	36.0	56.4	16.6	20.1
Michigan	3.1	3.4	13.1	2.0	81.9	39.0	21.2	39.3	51.7	45.4	2.4
Minnesota	3.0	3.5	25.3	3.4	81.2	39.0	22.6	37.9	72.7	12.4	1.6
Mississippi	3.0	4.7	54.9	12.4	86.1	38.0	22.9	39.0	12.8	86.5	.1
Missouri	3.0	4.0	42.5	7.6	83.8	42.1	21.3	36.5	53.6	45.6	.4
Montana	3.0	3.1	9.1	2.9	80.8	36.8	26.1	35.8	71.0	.7	2.6
Nebraska	2.8	3.7	36.9	12.1	80.2	46.3	17.5	35.4	62.3	27.1	4.1
Nevada	2.8	2.9	9.7	10.0	89.3	51.5	21.4	26.2	49.2	39.2	7.4
New Hampshire	2.7	2.9	14.9	11.9	85.6	39.9	28.0	31.0	87.4	1.8	1.3
New Jersey	2.9	3.2	15.9	9.8	86.9	34.6	22.5	41.8	24.1	48.3	26.8
New Mexico	2.9	3.3	17.8	5.9	88.8	36.5	23.1	38.9	18.8	3.8	59.2
New York	3.1	3.5	23.8	6.4	82.9	35.1	22.3	41.0	21.6	38.9	37.8
North Carolina	2.7	4.2	55.8	15.4	83.6	36.5	21.1	42.1	23.0	73.6	.2
North Dakota	2.8	3.1	15.7	1.4	95.7	37.6	28.5	31.8	67.2	.6	.3
Ohio	3.1	3.8	34.0	6.5	76.8	37.9	20.1	41.5	61.7	36.0	1.4
Oklahoma	3.0	3.7	34.0	8.3	88.1	38.3	23.6	37.4	51.8	32.6	2.0
Oregon	2.8	3.5	40.0	13.2	79.1	45.9	20.5	33.2	83.5	8.4	2.8
Pennsylvania	3.0	3.5	23.3	5.3	80.9	35.8	20.1	43.9	51.0	41.4	6.5
Rhode Island	2.9	3.0	10.2	2.6	91.7	37.5	23.4	38.8	65.8	17.4	13.2

South Carolina	2.8	4.6	60.7	16.3	80.5	35.4	21.9	42.4	17.1	82.6	.1
South Dakota	2.8	3.8	38.5	13.3	85.1	38.8	22.3	38.1	50.5	.3	.3
Tennessee	2.8	4.0	53.7	11.7	85.9	38.8	19.4	41.1	43.7	55.7	.1
Texas	3.1	4.1	41.5	9.9	87.4	43.0	20.9	35.7	18.4	39.6	40.8
Utah	3.0	3.6	29.3	7.7	85.6	39.8	26.9	33.0	81.2	2.8	10.9
Vermont	2.9	3.2	18.6	5.0	78.6	34.7	23.2	38.7	98.5	.9	.3
Virginia	2.7	4.1	56.4	14.3	83.8	36.7	22.6	40.3	32.4	65.8	.6
Washington	2.8	3.5	35.1	10.3	77.9	39.5	24.0	35.9	73.7	10.2	5.0
West Virginia	3.1	3.7	30.4	5.1	60.9	36.0	20.1	42.2	92.7	7.2	0
Wisconsin	3.1	3.6	28.3	5.6	75.4	40.8	21.4	37.0	59.5	30.1	4.4
Wyoming	2.7	3.2	28.6	5.0	92.1	38.3	28.9	31.8	77.2	2.1	12.1
Guam	3.8	4.5	24.1	2.8	83.6	54.1	20.6	25.0	4.1	0	0
Puerto Rico	3.3	4.6	49.2	10.3	70.8	20.6	22.3	56.9	.2	.1	88.4
Virgin Islands	3.8	4.9	37.6	7.5	88.9	42.5	26.8	30.4	0	29.4	15.4
U.S. Total	3.0	3.8	37.0	9.6	80.6	38.3	22.0	39.1	38.8	39.8	15.5

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[1] Unknown category was distributed proportionately within States reporting proportions of unknown.

[2] Distribution does not add to 100 percent because it excludes "other" races. All race categories are mutually exclusive.

Source: "Characteristics and Financial Circumstances of AFDC Recipients, 1987." U.S. Department of Health and Human Services.

TABLE 28.—SELECTED INCOME CHARACTERISTICS OF AFDC UNITS, BY STATE, OCTOBER 1986–SEPTEMBER 1987

State	Units with earned income		Units with unearned income		Units with income disregarded for child care		Units that have $30 plus one-third disregard		Percent of units participating in the food stamp program [2]
	Percent of total units	Average monthly amount (dollars) [1]	Percent of total units [1]	Average monthly amount (dollars) [1]	Percent of units with earned income	Average monthly amount (dollars) [1]	Percent of units with earned income	Average monthly amount (dollars) [1]	
Alabama	4.7	121.29	7.2	116.15	10.1	70.44	24.7	41.27	83.2
Alaska	12.1	352.27	19.1	393.79	10.0	117.50	57.5	108.04	67.9
Arizona	6.4	233.49	3.9	177.26	7.4	106.20	70.6	75.44	85.3
Arkansas	5.1	147.41	19.5	84.18	14.3	91.57	49.0	54.75	85.9
California	9.5	354.46	11.8	226.11	16.5	130.87	41.7	80.31	70.9
Colorado	11.4	278.39	22.3	221.77	26.7	114.02	35.9	84.17	81.7
Connecticut	6.7	332.16	16.1	196.46	8.1	117.12	50.5	99.42	75.7
Delaware	8.5	231.52	16.7	123.09	25.9	76.29	51.9	71.14	80.2
Dist. of Columbia	4.1	308.16	6.0	166.29	12.9	77.50	71.0	96.77	47.0
Florida	6.6	225.44	10.8	101.58	20.4	92.27	56.8	58.29	76.8
Georgia	5.4	198.63	21.1	99.15	26.9	92.28	32.8	78.68	77.0
Hawaii	12.1	261.72	3.8	208.89	10.5	133.33	40.4	88.52	83.5
Idaho	12.3	215.65	18.8	174.93	15.0	104.67	55.0	58.32	84.3
Illinois	4.8	286.23	9.0	154.32	31.7	146.01	59.3	71.79	88.8
Indiana	9.6	188.26	19.9	91.18	20.5	80.96	47.5	62.48	81.5
Iowa	17.3	229.65	18.5	113.30	24.3	98.98	46.6	71.32	88.8
Kansas	11.7	281.46	9.8	139.28	14.3	90.27	68.6	79.50	79.6
Kentucky	4.0	166.02	7.6	102.28	21.7	68.28	41.0	51.24	85.5
Louisiana	3.0	153.05	11.3	83.41	10.5	88.25	52.6	58.10	76.3

Maine	20.5	357.39	21.7	201.71	36.6	103.83	40.8	94.84	84.5
Maryland	5.3	286.13	12.3	91.45	37.0	94.53	62.2	64.65	83.3
Massachusetts	6.7	341.32	21.3	175.04	32.1	95.64	51.3	92.37	79.3
Michigan	13.0	354.79	18.2	168.21	16.8	99.30	46.5	91.08	91.4
Minnesota	16.8	283.52	20.6	156.25	21.7	117.67	51.2	69.49	79.4
Mississippi	10.5	285.20	14.8	185.27	19.7	95.04	40.6	85.43	87.7
Missouri	8.5	224.07	12.4	151.90	23.7	90.66	54.0	62.82	82.3
Montana	16.3	226.08	20.2	151.45	24.0	106.25	64.0	71.59	91.5
Nebraska	14.7	276.72	8.5	174.38	10.3	91.12	41.0	77.28	87.6
Nevada	4.9	172.33	12.3	76.16	13.3	72.50	46.7	72.57	72.2
New Hampshire	10.9	211.47	18.2	100.21	9.3	150.00	34.9	65.00	78.8
New Jersey	4.2	275.14	3.4	241.73	17.3	93.18	45.9	81.18	85.4
New Mexico	4.1	207.79	16.0	216.37	24.1	61.00	48.3	64.14	85.3
New York	5.6	340.04	14.8	214.81	10.3	167.71	42.6	96.97	93.2
North Carolina	5.8	200.26	29.2	184.76	17.8	66.38	56.2	73.51	71.6
North Dakota	18.5	206.57	29.3	74.70	30.8	80.20	49.2	61.25	71.8
Ohio	5.3	243.25	7.9	129.79	10.8	146.57	53.8	77.20	89.5
Oklahoma	6.8	230.92	8.1	201.86	1.6	144.00	67.2	78.90	82.3
Oregon	15.2	255.96	14.3	135.40	24.3	110.91	56.4	69.00	87.9
Pennsylvania	5.9	294.58	4.4	225.25	18.5	87.23	64.2	75.58	88.5
Rhode Island	9.2	364.20	28.3	307.78	24.5	112.08	44.9	83.55	90.4
South Carolina	9.3	240.68	18.6	115.46	16.3	92.69	50.6	67.50	80.3
South Dakota	15.2	170.40	31.1	93.35	25.5	75.08	46.8	43.27	77.0
Tennessee	8.4	274.98	10.1	120.26	20.2	94.57	69.7	82.42	85.6
Texas	4.1	170.63	6.9	126.74	4.9	100.93	53.5	51.73	89.5
Utah	19.0	332.16	20.1	110.68	9.2	173.87	51.7	79.58	83.8

TABLE 28.—SELECTED INCOME CHARACTERISTICS OF AFDC UNITS, BY STATE, OCTOBER 1986–SEPTEMBER 1987—Continued

State	Units with earned income		Units with unearned income		Units with income disregarded for child care		Units that have $30 plus one-third disregard		Percent of units participating in the food stamp program [2]
	Percent of total units	Average monthly amount (dollars) [1]	Percent of total units [1]	Average monthly amount (dollars) [1]	Percent of units with earned income	Average monthly amount (dollars) [1]	Percent of units with earned income	Average monthly amount (dollars) [1]	
Vermont	18.9	380.61	24.5	147.06	24.6	128.47	54.1	117.36	86.1
Virginia	7.4	194.86	6.4	110.34	.6	70.00	47.9	65.33	66.8
Washington	9.1	303.23	12.0	226.09	19.4	129.39	48.8	90.75	84.5
West Virginia	8.0	191.73	20.6	104.66	NA	NA	46.9	93.27	93.6
Wisconsin	18.3	324.99	20.5	229.09	25.7	100.91	50.4	80.63	82.6
Wyoming	12.9	246.76	7.3	151.04	18.4	121.56	63.3	69.87	87.9
Guam	1.9	170.33	16.5	68.71	16.7	30.00	50.00	50.00	93.0
Puerto Rico	.9	67.73	4.0	58.02	6.7	80.00	33.3	48.80	80.5
Virgin Islands	3.6	201.18	7.8	96.17	9.1	170.00	36.4	58.50	93.1
U.S. total	7.8	292.47	12.7	171.35	18.2	111.23	49.0	78.40	82.9

NA—No case samples available.

[1] Average amount for those with the income source or income disregard.

[2] Unknown category was distributed proportionately within States reporting proportions of unknown.

Source: "Characteristics and Financial Circumstances of AFDC Recipients, 1987", U.S. Department of Health and Human Services.

TABLE 29.—PERCENTAGE DISTRIBUTION OF AFDC UNITS, BY TYPE OF SHELTER ARRANGEMENT—OCTOBER 1986–SEPTEMBER 1987

State	Owns or is buying	Public housing	HUD rent subsidy	Other rent subsidy	Private housing (no subsidy)	Shares group quarters	Rents free	Unknown
Alabama	3.7	14.1	9.9	.2	35.6	.2	20.0	16.4
Alaska	9.1	7.6	7.6	6.1	47.6	.3	10.0	11.8
Arizona	3.8	8.6	13.9	.7	55.9	1.6	15.2	0
Arkansas	6.2	13.4	20.7	.7	29.8	6.5	22.1	.5
California	1.3	4.6	5.2	.8	87.3	.2	.3	.2
Colorado	1.1	8.0	16.3	3.6	66.4	4.0	.4	.1
Connecticut	1.6	17.8	17.0	.6	58.0	4.1	.6	.3
Delaware	3.5	14.2	17.6	.9	58.2	3.1	1.9	.6
District of Columbia	1.1	17.7	12.3	1.9	65.2	.5	.5	.8
Florida	2.3	11.6	11.9	1.0	67.4	1.0	4.3	.4
Georgia	3.7	14.0	7.2	1.3	24.7	3.2	6.4	39.5
Hawaii	2.5	9.3	14.0	1.7	55.5	11.4	5.5	0
Idaho	4.0	4.6	17.0	8.0	55.2	4.3	5.9	.9
Illinois	3.1	12.6	6.0	.2	69.3	2.1	4.4	2.3
Indiana	4.0	8.4	16.6	1.3	68.8	0	.8	.2
Iowa	8.9	1.4	14.9	1.5	65.1	5.5	1.9	.8
Kansas	4.6	4.2	8.9	.4	75.3	1.7	4.9	0
Kentucky	9.0	9.0	8.0	.2	44.8	.2	3.6	25.2
Louisiana	4.5	15.1	12.1	.7	43.2	3.5	18.3	2.5
Maine	17.5	.9	5.1	9.0	37.7	.1	1.2	28.6
Maryland	1.8	10.2	11.7	1.3	73.4	.4	.8	.3
Massachusetts	2.7	15.1	16.3	6.7	53.1	4.6	.5	1.0
Michigan	13.7	3.3	5.2	1.1	72.1	.1	4.4	.1
Minnesota	12.7	10.1	17.4	2.7	54.5	.4	1.4	.8
Mississippi	5.5	2.8	11.7	.5	20.9	.4	22.8	35.3
Missouri	6.8	6.4	11.7	.6	62.5	.6	7.1	4.2
Montana	7.5	16.3	18.6	4.9	48.5	2.9	.3	1.0
Nebraska	6.6	10.7	18.5	3.8	49.2	6.0	3.6	1.7
Nevada	0	13.6	21.7	.6	51.8	0	12.3	0
New Hampshire	2.5	13.9	7.6	4.0	65.2	2.3	4.0	.5
New Jersey	.9	8.9	3.8	1.9	80.6	1.4	.7	1.8
New Mexico	13.0	10.9	23.5	3.7	37.3	3.8	6.5	1.3
New York	1.3	16.1	7.2	3.1	69.4	.8	1.5	.6
North Carolina	4.4	17.8	12.1	.4	52.5	3.7	7.1	2.1
North Dakota	8.5	10.8	28.8	8.8	33.6	2.3	4.8	2.3
Ohio	4.4	8.8	11.9	1.0	70.4	.6	2.7	.2
Oklahoma	4.3	4.3	26.4	2.7	33.0	13.2	15.3	.7
Oregon	2.9	6.2	16.4	.7	70.0	1.9	1.0	.8
Pennsylvania	5.2	12.7	6.1	1.0	63.3	2.2	.9	8.6
Rhode Island	2.6	12.6	17.0	1.1	60.4	2.6	3.2	.4
South Carolina	4.7	6.6	12.8	.8	25.5	.8	26.6	22.2
South Dakota	2.6	9.4	13.3	11.0	47.2	2.6	13.3	.6

TABLE 29.—PERCENTAGE DISTRIBUTION OF AFDC UNITS, BY TYPE OF SHELTER ARRANGEMENT—OCTOBER 1986–SEPTEMBER 1987—Continued

State	Owns or is buying	Public housing	HUD rent subsidy	Other rent subsidy	Private housing (no subsidy)	Shares group quarters	Rents free	Unknown
Tennessee	4.4	22.5	11.7	1.2	44.4	.9	11.9	3.0
Texas	5.7	9.4	20.2	2.1	32.0	2.5	27.9	.2
Utah	4.8	.4	14.4	4.2	70.7	1.3	4.2	0
Vermont	8.4	11.1	6.5	1.9	60.1	8.0	3.4	.6
Virginia	2.0	16.9	13.5	.7	46.1	2.3	6.6	11.9
Washington	4.1	7.1	11.1	2.3	73.1	.3	1.5	.5
West Virginia	15.1	5.8	13.8	.3	56.0	1.5	7.4	.3
Wisconsin	7.6	5.1	7.6	2.6	71.9	1.7	3.0	.5
Wyoming	20.2	5.0	5.5	4.2	59.6	1.3	4.2	0
Guam	4.4	.3	47.2	0	21.8	.9	25.3	0
Puerto Rico	33.9	19.5	2.9	2.4	19.5	3.0	16.8	2.0
Virgin Islands	4.9	54.2	.7	1.0	20.3	2.3	13.1	3.6
U.S. total	4.8	9.9	9.8	1.6	63.0	1.6	5.5	3.8

Source: "Characteristics and Financial Circumstances of AFDC Recipients, 1987". U.S. Department of Health and Human Services.

TABLE 30.—PERCENTAGE DISTRIBUTION OF AFDC UNITS BY REASON FOR DEPRIVATION OF THE YOUNGEST CHILD, OCTOBER 1986–SEPTEMBER 1987

State	Parent deceased	Parent incapacitated	Parent unemployed	Parent absent			Other	Unknown
				Divorced or legally separated	Not legally separated	Not married		
Alabama	1.0	2.9	.1	13.8	12.2	68.6	1.4	0
Alaska	2.1	2.4	0	28.8	13.9	44.5	5.8	2.4
Arizona	1.7	2.8	.1	13.9	23.3	55.3	1.4	1.5
Arkansas	1.3	3.9	0	14.9	14.7	63.3	1.6	.2
California	2.3	3.3	12.9	14.6	16.5	43.7	1.8	4.8
Colorado	1.8	2.9	.3	23.3	14.1	49.8	.9	7.0
Connecticut	1.5	1.2	1.3	11.6	17.4	63.5	1.8	1.8
Delaware	1.6	1.3	1.3	11.0	15.7	64.8	3.8	.6
District of Columbia	1.5	.5	5.2	2.4	8.7	79.1	.8	1.9
Florida	1.3	1.3	0	12.3	16.8	63.7	2.3	2.2
Georgia	1.7	2.2	.2	11.2	17.9	66.0	.5	.3
Hawaii	1.5	6.6	7.4	16.1	13.3	49.6	1.9	3.6
Idaho	.9	3.4	0	31.8	15.7	43.8	1.2	3.1
Illinois	1.0	1.3	5.9	9.4	14.6	65.7	1.0	1.0
Indiana	1.0	2.8	.2	27.1	9.1	58.2	1.3	.2
Iowa	1.4	3.8	11.2	29.2	12.0	40.6	1.4	.5
Kansas	1.4	3.1	10.3	26.7	12.9	41.0	1.7	2.8
Kentucky	2.1	11.8	0	21.2	18.7	45.4	.9	0
Louisiana	1.5	2.5	0	10.2	12.3	67.1	2.1	4.2

TABLE 30.—PERCENTAGE DISTRIBUTION OF AFDC UNITS BY REASON FOR DEPRIVATION OF THE YOUNGEST CHILD, OCTOBER 1986–SEPTEMBER 1987—Continued

State	Parent deceased	Parent incapacitated	Parent unemployed	Parent absent: Divorced or legally separated	Parent absent: Not legally separated	Parent absent: Not married	Other	Unknown
Maine	1.7	6.4	5.3	33.4	11.3	40.8	1.2	0
Maryland	1.4	1.9	1.8	7.6	14.6	69.7	.7	2.2
Massachusetts	1.9	3.5	2.9	15.4	18.2	52.8	1.8	3.4
Michigan	1.5	1.3	10.2	21.1	9.9	49.4	1.0	5.5
Minnesota	1.6	1.8	13.5	25.4	9.8	45.3	.6	2.0
Mississippi	1.4	2.9	0	8.3	15.9	70.6	.7	.1
Missouri	1.4	3.0	6.6	17.1	15.2	55.4	1.1	.2
Montana	2.0	3.6	11.1	29.6	11.7	38.8	.7	2.6
Nebraska	.8	1.5	5.8	21.7	8.5	54.6	2.3	4.9
Nevada	1.3	1.3	0	13.3	23.6	57.9	0	2.6
New Hampshire	.8	5.1	0	24.5	17.9	46.5	3.5	1.8
New Jersey	2.0	1.0	2.1	8.8	17.9	66.2	1.5	.6
New Mexico	2.0	4.2	0	17.8	16.0	54.8	2.8	2.3
New York	1.6	3.1	3.7	8.9	21.6	54.4	1.4	5.2
North Carolina	.9	1.5	0	10.8	18.1	65.4	1.9	1.4
North Dakota	1.1	2.0	0	41.3	6.3	46.2	0	3.1
Ohio	1.6	2.9	14.0	20.8	11.6	43.0	1.1	5.0
Oklahoma	1.9	3.1	0	26.0	18.1	48.8	1.8	.3
Oregon	.9	4.4	4.0	19.5	21.5	46.6	1.3	1.8
Pennsylvania	2.0	3.7	6.2	12.0	19.4	53.4	2.1	1.3
Rhode Island	1.5	3.8	.4	23.8	17.7	48.3	1.5	3.0
South Carolina	.9	2.8	1.2	7.0	25.4	61.8	.7	.2
South Dakota	2.6	2.6	0	26.2	11.7	54.7	1.6	.6
Tennessee	1.5	5.0	0	17.0	14.3	55.4	1.8	4.9
Texas	1.8	2.6	.2	14.6	22.9	55.7	2.3	0
Utah	.7	4.6	2.0	34.4	19.3	31.9	1.1	6.1
Vermont	.9	6.2	7.4	23.2	15.2	40.2	1.5	5.3
Virginia	.9	3.4	0	10.7	16.3	67.4	.8	.4
Washington	2.1	4.5	8.8	24.8	17.0	38.0	2.1	2.6
West Virginia	.4	8.2	28.2	17.1	17.9	26.3	.3	1.6
Wisconsin	1.1	2.9	15.1	21.0	7.0	46.2	.7	5.8
Wyoming	.5	1.3	0	41.2	13.6	38.1	2.1	3.1
Guam	1.6	3.8	6.6	14.2	5.1	62.7	3.5	2.5
Puerto Rico	2.2	18.8	0	10.1	24.2	42.0	2.6	.1
Virgin Islands	2.0	2.3	0	11.4	9.8	67.6	5.6	1.8
U.S. total	1.6	3.2	6.2	15.1	16.2	52.2	1.5	2.0

Source: "Characteristics and Financial Circumstances of AFDC Recipients, 1987". U.S. Department of Health and Human Services.

LENGTH OF TIME ON WELFARE AND TURNOVER WITHIN THE AFDC CASELOAD

LENGTH OF TIME ON WELFARE

Average length of time on welfare.—A 1983 study of AFDC families [2] found that although most "spells" of AFDC are relatively short, most persons enrolled in the program at any point in time are in the midst of spells that last at least 8 years. As the first two columns of table 30 illustrate, the study reported that 50 percent of AFDC spells lasted less than 2 years and 62 percent lasted less than 4 years. At the same time, the study reported that 50 percent of the persons enrolled at a point in time were in the midst of very long episodes (8 or more years) of AFDC receipt, and such long-term recipients used most of the resources of the program.

The 1983 study has since been updated by one of its authors, because it understated the extent of long-term welfare dependence by neglecting to take into account the fact that multiple spells of welfare receipt are common (about one-third of all welfare spells are followed by subsequent spells). Accounting for multiple spells alters the distribution of total expected time on welfare, as the last two columns of table 31 illustrate. The fact remains, however, that while a significant percent of all persons on welfare will be enrolled for less than 2 years (30 percent) or less than 4 years (50 percent), a majority of persons enrolled in AFDC at a point in time are in the midst of what will be long periods of welfare receipt (65 percent).

TABLE 31.—DISTRIBUTION OF LENGTH OF TIME ON AFDC

[In percent]

Expected time on AFDC	Single spell analysis		Multiple spell analysis	
	Persons beginning a spell	Persons on AFDC at a point in time	Persons beginning first AFDC spell	Persons on AFDC at a point in time
1 to 2 years	48	14	30	7
3 to 4 years	14	10	20	11
5 to 7 years	20	25	19	17
8 or more years	17	50	30	65
All	100	100	100	100

This seemingly paradoxical finding that there are large differences between point-in-time and ever-began estimates of welfare dependency highlights a crucial element of welfare dynamics that is characteristic of the dynamics of spells of poverty and unemployment as well. The differences in the estimates occur because the probability of being on welfare (or being poor or unemployed) at a given time is necessarily higher for longer-term recipients than for those who have shorter welfare spells. Thus, the point-in-time welfare sample is a biased sample of *all* welfare recipients.

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[2] Bane, Mary Jo, and Ellwood, David T., The Dynamics of Dependence; The Routes to Self-Sufficiency. Prepared for the U.S. Department of Health and Human Services under contract No. HHS-100-82-0038, June 1983. (Prepared by Urban Systems Research and Engineering, Inc., Cambridge, Mass.)

An example of spells of hospitalization will help to establish this point. Consider a 13-bed hospital in which 12 beds are occupied for an entire year by 12 chronically ill patients, while the other bed is used by 52 patients, each of whom stays exactly 1 week. On any given day, a hospital census would find that about 85 percent of patients (12/13) were in the midst of long spells of hospitalization. Nevertheless, viewed over the course of a year, short-term use clearly dominates: out of the 64 patients using hospital services, about 80 percent (52/64) spent only 1 week in the hospital. Exactly the same dynamic accounts for the results with regard to welfare experience. One of the most important lessons from the longitudinal evidence is that while the welfare population at any point in time is composed predominantly of long-term users, the typical recipient is a short-term user.

Subgroup analysis of length of time on welfare.—Tables 32 and 33 present data on the length of time on welfare for various subgroups of the population. Table 32 is based on ever-began estimates of welfare receipt which take into account multiple spells. This table shows that the most powerful predictor of long-term welfare receipt is marital status. Single women average 9 years of AFDC receipt, and 39 percent are predicted to receive AFDC for 10 or more years. Race and work experience also seem to distinguish themselves among different subgroups of AFDC recipients. Blacks and those who did not work in the 2 years prior to their first receiving welfare are estimated to average over 8 years of AFDC receipt, and nearly one-third of each group are expected to receive AFDC for 10 or more years. Education may well be another important grouping: high school graduates seem to fare better than dropouts. However, these education-related estimates are less reliable because the sample size of those with less than 9 years of education is very small.

TABLE 32.—PERCENTAGE OF AFDC RECIPIENTS WITH VARIOUS CHARACTERISTICS AND AVERAGE TOTAL DURATIONS OF AFDC RECEIPT

Recipient characteristics at time of first spell beginning	Percent of all first-time recipients (new beginnings)	Percent of recipients at any point in time [1]	Average number of years of AFDC receipt	Percent who will have AFDC spells of 10 or more years
Age:				
Under 22	30.0	35.9	8.23	32.8
22 to 30	40.7	41.9	7.08	25.8
31 to 40	11.8	8.8	5.15	15.0
Over 40	17.6	13.4	5.23	15.8
Race/ethnicity:				
White	55.2	47.7	5.95	19.6
Black	40.1	47.4	8.14	32.0
Other	4.8	4.8	6.94	25.5

TABLE 32.—PERCENTAGE OF AFDC RECIPIENTS WITH VARIOUS CHARACTERISTICS AND AVERAGE TOTAL DURATIONS OF AFDC RECEIPT—Continued

Recipient characteristics at time of first spell beginning	Percent of all first-time recipients (new beginnings)	Percent of recipients at any point in time [1]	Average number of years of AFDC receipt	Percent who will have AFDC spells of 10 or more years
Years of education:				
Under 9	9.7	9.6	6.81	24.5
9 to 11	37.6	41.9	7.65	29.2
Over 11	52.7	48.5	6.33	21.8
Marital status:				
Single	29.5	40.0	9.33	39.3
Divorced	28.1	20.2	4.94	13.7
Separated	32.3	31.9	6.80	24.4
Widowed	8.4	5.3	4.37	10.2
Number of children:				
0 to 1	43.4	48.7	7.71	29.7
2 to 3	42.8	37.3	6.04	20.1
Over 3	13.8	13.7	6.83	24.5
Age of youngest child:				
Under 3	51.3	60.4	8.09	31.9
3 to 5	22.5	22.3	6.79	24.2
6 to 10	19.7	12.9	4.51	11.3
Over 10	6.5	4.4	4.71	12.4
Work experience:				
Worked in the last 2 years	65.8	59.6	6.53	23.0
Did not work in the last 2 years	34.2	39.8	8.00	31.2
Disability status:				
No disability	81.6	81.4	6.85	24.8
Disability limits work	18.4	18.6	6.97	25.0

[1] These figures assume that the AFDC caseload is a "steady state."

Source: David T. Ellwood. "Targeting Would-Be Long-Term Recipients of AFDC," Table IV–1. Simulation model estimates are based on the 15-year panel study of income dynamics. For each individual who began a first spell on or after the third sample year of the PSID, probabilities are predicted for exiting from first spell, for recidivism, and for exiting from later spells, based on logit models.

Table 33 presents another approach to evaluating length of time on welfare. It takes a sample of the entire 1975 population, and chronicles welfare receipt patterns for the next 10 years. Eighty-seven percent of this 1975 sample lived in familes in which no AFDC income was received in the following 9 year period, 1975–1984. Fewer children (78.0 percent) received no AFDC. This table also presents data on individuals for whom AFDC and Food Stamps together constituted 50 percent of their family's annual income. Only 4.0 percent of all non-white Americans and 0.4 percent of all white Americans in this group were on welfare 8 to 10 years out of the total 10-year period. Note that these data do not describe the welfare receipt patterns of the population in anything but this 10-year window. Years of welfare receipt prior to and after this period are not accounted for. Thus, these data represent a lower bound estimate of long-term receipt.

TABLE 33.—WELFARE DEPENDENCY, 1975–84, BY TWO DEFINITIONS OF DEPENDENCY

[In percent]

Years on welfare	Fraction living in households in which at least $1 of AFDC was received by head or wife			Fraction living in households receiving AFDC in which AFDC of head and wife plus food stamps was at least 50 percent of total family income		
	All	Children, age 0 to 5 in 1975	Women, age 18 to 55 in 1975	All	Children, age 0 to 5 in 1975	Women, age 18 to 55 in 1975
All races:						
0 years	86.6	78.0	88.6	92.8	85.1	94.5
1 to 2 years	6.5	8.0	5.9	3.6	5.2	2.8
3 to 7 years	4.9	7.7	4.0	2.8	6.6	2.1
8 to 10 years	2.0	6.4	1.6	1.0	3.0	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
White:						
0 years	90.5	84.4	91.7	95.7	90.6	96.5
1 to 2 years	5.5	7.0	5.0	2.3	2.9	2.0
3 to 7 years	2.8	3.8	2.4	1.5	4.7	1.3
8 to 10 years	1.2	4.6	0.8	0.4	1.7	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Nonwhite:						
0 years	61.9	44.9	67.2	74.8	56.8	80.8
1 to 2 years	12.2	12.7	11.7	11.4	17.0	8.4
3 to 7 years	18.2	27.2	15.0	9.8	16.4	8.1
8 to 10 years	7.7	15.2	6.1	4.0	9.8	2.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table reads: 86.6 percent of the population lived in households in which no AFDC income was received during the 1975–84 period.

Source: Special tabulations of the Panel Study of Income Dynamics by Greg J. Duncan, 1988.

INTERGENERATIONAL "DEPENDENCY"

Intergenerational welfare dependency has been examined by researchers. Using data from the Panel Study of Income Dynamics, Hill and Ponza found in 1984 that most daughters in welfare-dependent families did not become welfare-dependent as young adults. As table 34 illustrates, only 19 percent of black daughters and 26 percent of white daughters in highly dependent welfare families became highly dependent themselves. It is also interesting to note that fully 42 percent of the black daughters and 27 percent of the white daughters who grew up in families which were heavily dependent on welfare received *no* welfare as young adults.

TABLE 34.—INTERGENERATIONAL TRANSMISSION OF WELFARE DEPENDENCY

Parental welfare status	Status of daughters as young adults			Total (percent)	Number of observations
	Received no welfare (percent)	Low welfare dependence	High welfare dependence		
Received no welfare:					
Black	53	33	14	100	108
White	79	19	2	100	354
Low welfare dependence:					
Black	31	49	20	100	130
White	63	31	5	100	75
High welfare dependence:					
Black	42	39	19	100	92
White	27	47	26	100	25

Note.—"High Welfare Dependence" is defined as receiving at least 25 percent of average family income as cash welfare payments. Parental measures are typically averaged over 7 years during the time the child is 10 to 16 years old. Measures on the children as young adults are typically measured over 7 years during the time the child is 24 to 30 years old.

Source: Hill, Martha S., and Ponza, Michael. "Does Welfare Dependency Beget Dependency?" Institute for Social Research, Fall 1984. Mimeo.

Source of data: Panel Study of Income Dynamics.

TURNOVER WITHIN THE AFDC CASELOAD

To further understand the dynamics of welfare receipt, data are available which describe which events in an individual's life provide the explanation for beginnings and endings of spells of AFDC receipt.

Beginnings of AFDC spells.—As table 35 illustrates, three-fourths of all spells in the PSID data set began with a relationship change that created a female-headed family with children. Almost half the AFDC spells started after a wife became a female family head (by loss of the male head and his earnings due to absence, divorce, separation, death). Another 30 percent began when a never-married, divorced, or separated woman acquired a child.

In contrast to changes in family composition, changes in earnings were a relatively minor cause of resorting to welfare. Only 15 percent of AFDC spells could be traced to a drop in family earnings.

Endings of AFDC spells.—The most common route out of AFDC was by way of a change in family structure. Some 46 percent of endings occurred this way—35 percent when a female head became a wife and 11 percent when the household no longer contained a child under 18.

Increased earnings were much more significant in ending AFDC than decreased earnings were in starting it. Some 26 percent of endings occurred this way—21 percent when the female head herself earned more money and 5 percent when another member of the family increased earnings.

Poverty status.—About 40 percent of those who ended AFDC spells were poor after their exit. About 52 percent of those whose AFDC eligibility ended because they no longer had an eligible child were poor in the following year. For those who earned their way off AFDC, about 32 percent were poor in the year after their welfare spell; their poverty reflected the sub-poverty gross income eligibility limits of AFDC in many States.

TABLE 35.—EVENTS ASSOCIATED WITH THE BEGINNINGS AND ENDINGS OF AFDC SPELLS

Beginnings	Percent	Endings	Percent
Divorce/separation	45	Marriage	35
Childless, unmarried woman becomes a female head with children.	30	Children leave parental home	11
Earnings of female head fell	12	Earnings of female head increased.	21
Earnings of others in family fell	3	Earnings of others in family increased.	5
Other income fell	1	Transfer income increased	14
Other (including unidentified)	9	Other (including unidentified)	14
All	100	All	100

Sources: "Beginnings": Bane and Ellwood (1983), p. 18, using PSID data. "Endings": Ellwood (1985), p. 46, using PSID data.

WELFARE RECEIPT OF TEENAGE MOTHERS

One of the subgroups at greatest risk for long-term welfare receipt is comprised of young never-married women who enter the AFDC program when their child is less than 3 years old. For example, it is estimated that over 40 percent of never-married women who enter the AFDC system at age 25 or less with a child less than 3 years old will spend 10 years or more on AFDC.[3] This subsection provides data on the number of teenage mothers in the United States and the proportion receiving AFDC, and presents data on some of the dynamics of their welfare receipt.

NUMBER OF TEENAGE MOTHERS

There are several different estimates of the number of teenage mothers in the United States. Probably the best estimates are based on data from the National Center for Health Statistics (NCHS). These are shown in table 36 below for 1983.

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[3] Ellwood, David T. "Targeting 'Would-Be' Long-Term Recipients of AFDC," prepared for the U.S. Dept. of Health and Human Services under contract No. 100-84-0059, June 1986. (Prepared by Mathematica Policy Research, Inc.)

TABLE 36.—NUMBER OF TEENAGE MOTHERS IN THE UNITED STATES BY CURRENT AGE AND AGE AT BIRTH OF FIRST CHILD, 1983

Current age	Total	Unmarried at time of first birth	Age at first birth	Total	Unmarried at time of first birth
Under 15	9,356	8,480	Under 15	58,022	51,674
15	32,423	27,164	15	123,269	97,417
16	81,745	62,271	16	209,684	143,377
17	162,432	111,149	17	244,180	144,205
18	275,386	167,672	18	213,931	108,236
19	411,735	219,272	19	123,971	51,099
Total	973,057	596,008		973,057	596,008

Source: Based on data from NCHS annual natality reports, 1978–83.

Preliminary NCHS data indicate that the number of teenage mothers had fallen to 907,000 by 1985, of which 581,000 were unmarried and 327,000 were married. Of the unmarried teenage mothers, 298,000 were white and 266,000 were black. Of the married teenage mothers, 300,000 were white, and 18,000 were black.

PROPORTION RECEIVING AFDC

Data from AFDC quality control records indicate that in 1983 the average monthly number of teenage mothers receiving AFDC was 236,000. Of these teenage mothers on AFDC, 199,000 were unmarried. Data from AFDC records suggest that by 1986, the number of teenage mothers had fallen to roughly 213,000, of which 172,000 were unmarried. Of these teenage mothers on AFDC in 1986, 52.3 percent were 19, 31.1 percent were 18, 10.5 percent were 17, 4.4 percent were 16, and the remainder were 15 and younger.

DYNAMICS OF AFDC RECEIPT

Table 37 describes the probability that an adolescent mother will begin to receive AFDC within the first 24 months after the birth of her first child.[4] Of these adolescents who had their first child between 1978 and 1984, about 27 percent reported receiving welfare at some point within the 12 months following the birth of that child. This proportion increased slightly to 28 percent in the subsequent 12 month period (13 to 24 months after birth).

Marital status at the birth of the first child. Adolescent mothers who were unmarried at the time of the birth of their first child were much more likely to receive welfare than were those teenage mothers who were married when they gave birth. Approximately 48 percent of the unmarried mothers received welfare for at least one month in the first year after the birth of their first child, compared with roughly 7 percent of those who were married when they gave birth.

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[4] In this table, adolescent mothers are defined as those who were between the ages of 15 and 19 when they had their first child. The mothers examined here had their first children between 1978 and 1984.

Both groups of young mothers were slightly more likely to receive welfare 13 to 24 months after giving birth than in the first 12 months after birth. As might be expected, mothers who were unmarried when they gave birth continued to be much more likely to receive welfare—namely, 50 percent of the unmarried mothers reported at least one month of welfare receipt 13 to 24 months after giving birth compared with about 8 percent of the married adolescents.

Although the differences in the recipiency rates of the two marital status groups are likely to be due to a number of factors, it is useful to recognize that marriage directly affects the eligibility of the young mother in at least two ways. First, married couples are not categorically eligible for AFDC in many States.[5] Second, even in States where couples are eligible, they are likely to have higher incomes than are unmarried adolescent mothers and thus are less likely to need or to qualify for benefits.

Age at the birth of the child. Mothers who were 15 to 17 years old when they gave birth were slightly more likely to report being on welfare in the first 12 months after birth (29 percent) than were 18- to 19-year-old mothers (26 percent). This difference becomes larger during the subsequent 12 months (13 to 24 months after giving birth), when the proportion of younger adolescent mothers who report receiving welfare in at least one month increased to 32 percent, while that of older adolescent mothers stayed fairly steady at 25 percent.

TABLE 37.—PROPORTION OF ADOLESCENT MOTHERS RECEIVING AFDC (FOR AT LEAST ONE MONTH) WITHIN THE FIRST 24 MONTHS AFTER THE BIRTH OF THEIR FIRST CHILD [1]

Characteristics of mother at time of birth of first child	Proportion receiving AFDC for at least one month in various periods after the birth of first child	
	0–12 months [2]	13–24 months
All	27	28
Marital status:		
Married	7	8
Unmarried	48	50
Age:		
15 to 17	29	32
18 to 19	26	25

[1] Adolescent mothers are defined as all women who were between the ages of 15 and 19 when they had their first child. Age and marital status are determined at the time of the birth of the child.

[2] Roughly 7 percent of the adolescent mothers reported receiving welfare during their pregnancy.

Note: These estimates are based on first births to a group of adolescent women between 1978 and 1984. As the findings are based on small samples, they should be interpreted as general estimates of patterns of welfare recipiency rather than as precise estimates of actual population characteristics.

Source: Preliminary Congressional Budget Office calculations from the National Longitudinal Survey of Youth (1979–85).

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[5] Through the AFDC-Unemployed Parent (AFDC-UP) program, States have the option to provide benefits to married couples where the principal earner is unemployed. In 1983, for example, 29 States did not provide AFDC-UP benefits—meaning that a married couple would not be eligible for assistance unless one was incapacitated.

The differences in the welfare recipiency patterns of adolescent mothers of different ages could be due to a number of factors. In particular, they are likely to be partially due to marital status differences between the two groups—the younger mothers in this sample were much less likely to be married than were older mothers. Other factors that might play a role include differences in living arrangements and in the likelihood of having a subsequent birth.

THE FAMILY SUPPORT ACT OF 1988

On October 13, 1988, President Reagan signed the Family Support Act of 1988 (Public Law 100-485) into law. The new law is summarized below.

A. CHILD SUPPORT AND ESTABLISHMENT OF PATERNITY

1. Guidelines for Child Support Award Amounts

Judges and other officials are required to use State guidelines for child support unless they are rebutted by a written finding that applying the guidelines would be unjust or inappropriate in a particular case. States must review guidelines for awards every 4 years. Beginning 5 years after enactment, States generally must review and adjust individual case awards every 3 years for AFDC cases. The same applies to other IV-D cases, except review and adjustment must be at the request of a parent.

2. Establishment of Paternity

States are required to meet Federal standards for the establishment of paternity. The standard relates to the percentage obtained by dividing the number of children in the State who are born out of wedlock, are receiving cash benefits or IV-D child support services, and for whom paternity has been established by the number of children who are born out of wedlock and are receiving cash benefits or IV-D child support services. To meet Federal requirements, this percentage in a State must: (1) be at least 50 percent; (2) be at least equal to the average for all States; or (3) have increased by 3 percentage points from fiscal year 1988 to 1991 and by 3 percentage points each year thereafter.

States are mandated to require all parties in a contested paternity case to take a genetic test upon request of any party.

The Federal matching rate for laboratory testing to establish paternity is set at 90 percent.

3. Disregard of Child Support

The child support enforcement disregard authorized under the Deficit Reduction Act of 1984 is clarified so that it applies to a payment made by the noncustodial parent in the month it was due even though it was received in a subsequent month.

4. Requirement for Prompt State Response

The Secretary of Health and Human Services is required to set time limits within which States must accept and respond to requests for assistance in establishing and enforcing support orders as well as time limits within which child support payments collected by the State IV-D agency must be distributed to the families to whom they are owed.

5. Requirement for Automated Tracking and Monitoring System

Every State that does not have a Statewide automated tracking and monitoring system in effect must submit an advance planning document that meets Federal requirements by October 1, 1991. The Secretary must approve each document within 9 months after submission. By October 1, 1995, every State must have an approved system in effect. Federal matching rates of 90 percent for this activity will expire after September 30, 1995.

6. Interstate Enforcement

A Commission on Interstate Child Support is established to hold one or more national conferences on interstate child support enforcement reform, and to report to Congress no later than October 1, 1990 on recommendations for improvements in the system and revisions in the Uniform Reciprocal Enforcement of Support Act.

7. Exclude Interstate Demonstration Grants in Computing Incentive Payments

Amounts spent by States for interstate demonstration projects are excluded from calculating the amount of the States' incentive payments.

8. Use of INTERNET System

The Secretaries of Labor and HHS are required to enter into an agreement to give the Federal Parent Locator Service prompt access to wage and unemployment compensation claims information useful in locating absent parents.

9. Wage Withholding

With respect to IV-D cases, each State must provide for immediate wage withholding in the case of orders that are issued or modified on or after the first day of the 25th month beginning after the date of enactment unless: (1) one of the parties demonstrates, and the court finds, that there is good cause not to require such withholding; or (2) there is a written agreement between both parties providing for an alternative arrangement. Present law requirements for mandatory wage withholding in cases where payments are in arrears apply to orders that are not subject to immediate wage withholding.

States are required to provide for immediate wage withholding for all support orders initially issued on or after January 1, 1994, regardless of whether a parent has applied for IV-D services.

10. Work and Training Demonstration Programs for Noncustodial Parents

The Secretary of HHS is required to grant waivers to up to 5 States to allow them to provide services to noncustodial parents under the JOBS program. No new power is granted to the States to require participation by noncustodial parents.

11. Data Collection and Reporting

The Secretary of HHS is required to collect and maintain State-by-State statistics on paternity determination, location of absent parent for the purpose of establishing a support obligation, enforcement of a child support obligation, and location of absent parent for the purpose of enforcing or modifying an established obligation.

12. Use of Social Security Number

Each State must, in the administration of any law involving the issuance of a birth certificate, require each parent to furnish his or her social security number (SSN), unless the State finds good cause for not requiring the parent to furnish it. The SSN shall not appear on the birth certificate, and the use of the SSN obtained through the birth record is restricted to child support enforcement purposes except under certain circumstances.

13. Notification of Support Collected

Each State is required to inform families receiving AFDC of the amount of support collected on their behalf on a monthly basis, rather than annually as provided under present law. States may provide quarterly notification if the Secretary of HHS determines that monthly reporting imposes an unreasonable administrative burden. This provision is effective 4 years after the date of enactment.

B. JOB OPPORTUNITIES AND BASIC SKILLS TRAINING PROGRAM

1. Purpose

Each State is required to establish and operate a Job Opportunities and Basic Skills Training (JOBS) program to assure that needy families with children obtain the education, training and employment that will help them avoid long-term welfare dependence.

2. Requirement for a Statewide Program

Not later than 2 years after the mandatory effective date, the State must make the program available in each subdivision of the State where it is feasible. If the State determines that the program is not to be available in all political subdivisions, it must provide appropriate justification to the Secretary.

3. State Plan Requirements

Each State must develop and periodically update a State plan (approved by the Secretary) describing how the State intends to implement the program in conformity with the requirements of the statute including requirements with regard to contract authority, private sector involvement, and coordination.

4. *Federal Administrative Responsibility*

A new Office of Assistant Secretary of HHS will be established as of February 1, 1989, to administer the new welfare program. The Secretaries of HHS and Labor are required to issue joint regulations with respect to working conditions, wage rates, workers' compensation, and displacement in JOBS program activities.

5. *State and Local Administration*

The State welfare agency is responsible for the administration (or supervision of the administration) of the JOBS program.

6. *Coordination with other Programs*

The Secretary of HHS must consult with the Secretaries of Education and Labor on a continuing basis to assure maximum coordination of services. The Governor must assure that program activities are coordinated with programs operated under JTPA and other relevant employment, training, and education programs. The State job training coordinating council must have an opportunity to review and comment on State plans. The State agency must also consult with the State education agency and the agency responsible for administering job training programs.

7. *Contract Authority/Involvement of Private Sector*

The State welfare agency is allowed to administer the program directly or through arrangements or contracts with JTPA administrative entities, State and local educational agencies, and with other public or private organizations (including community-based organizations as defined in section 4(5) of JTPA). The State welfare agency is required to use the services of each private industry council (PIC) to identify and provide advice on the types of jobs available or likely to become available in each JTPA service delivery area.

8. *Requirement for Participation*

a. *Exemption from participation.*—To the extent resources are available, States must require nonexempt AFDC recipients to participate in the JOBS program. Exempt applicants and recipients may participate on a voluntary basis. Exempt recipients would be those who are: (1) ill, incapacitated, or of advanced age; (2) needed in the home because of the illness or incapacity of another member of the household; (3) parents caring for a young child (under age 3 or a younger age selected by the State but not under age 1); (4) employed 30 or more hours a week; (5) a child under age 16 or attending, full time, an elementary, secondary or vocational school; (6) a woman who is in at least the second trimester of pregnancy; and (7) residing in an area where the program is not available.

b. *Participation Rates/Work Requirements.*—Certain minimum participation standards are established for fiscal years 1990–1995. In fiscal year 1990, at least 7 percent of the nonexempt caseload must participate in the JOBS program. The minimum participation rates in subsequent fiscal years are 7 percent in fiscal year 1991, 11 percent in fiscal years 1992–93, 15 percent in fiscal year 1994, and 20 percent in fiscal year 1995.

A parent in each Unemployed Parent (AFDC–UP) family must participate at least 16 hours per week in a work activity (or, in certain cases, education). The percentage of families required to meet this work requirement is 40 percent in fiscal year 1994, 50 percent in fiscal year 1995, 60 percent in fiscal year 1996, and 75 percent in fiscal year 1997 and fiscal year 1998.

Penalties for a failure to meet these requirements may be waived under certain circumstances.

9. Program Sanctions

a. *General Requirement.*—Sanctions must be applied to a nonexempt recipient if he or she: (1) fails without good cause to participate in the program; or (2) refuses without good cause to accept any bona fide offer of employment.

b. *Nature of Sanction.*—When the sanction is applied, the participant's needs must not be taken into account in determining the family's benefits.

c. *Length of Sanction.*—(1) in the case of the first failure to comply, until the failure to comply ceases; (2) in the case of the second failure to comply, until the failure to comply ceases or 3 months, whichever is longer; (3) in the case of any subsequent failure to comply, until the failure to comply ceases or 6 months, whichever is longer.

Lack of child care necessary for participation, or failure of the State agency to provide necessary child care, is good cause for refusal to participate or accept employment.

10. Fair Hearing

States may use the regular AFDC hearing process or one specially designed for the JOBS program. Assistance may not be suspended, reduced, discontinued, or terminated until an individual is provided a fair hearing meeting the due process standards set forth by the U.S. Supreme Court in *Goldberg* v. *Kelly*, 1970.

11. Assessment and Certification

The State agency must assess: (1) the education, child care, and supportive services needs of each participant; (2) the work experience and skills of each participant; and (3) each individual's family circumstances. The State may review the needs of the children as well as those of the adult caretaker.

12. Employability Plan

The State must develop an employability plan for each participant. The plan must be developed in consultation with the participant.

13. Contract/Agreement

States may require each participant to negotiate and enter into an agreement with the agency that specifies such matters as the participant's obligations, duration of participation, and activities and services to be provided by the State. Individuals must be assisted in reviewing and understanding the agreement.

14. Case Management

States may require the assignment of a case manager to each participant's family.

15. Orientation

The State agency must assure that all applicants and recipients are encouraged, assisted and required to fulfill their responsibilities to support their children by preparing for, seeking, accepting, and retaining such employment as they are capable of performing. The State agency must inform applicants and recipients of the JOBS activities and services for which they are eligible, the obligations of the State agency, and the rights, responsibilities, and obligations of participants in the JOBS program.

With respect to child care, the State agency must: (1) provide information on the types and locations of child care services accessible to participants; (2) inform participants that assistance is available to help them select appropriate child care services; and (3) upon request, provide assistance to participants in obtaining child care services.

16. Program Standards

a. *Work Standards.*—The State agency must assure that: (1) an assignment takes into account the physical capacity, skills, experience, health and safety, family responsibilities, and place of residence of the participant; (2) individuals are not discriminated against; (3) conditions of participation are reasonable; and (4) a participant is not be required, without his consent, to travel an unreasonable distance from home or remain away from home overnight to participate.

b. *Wage Rates.*—Under the CWEP program for the first 9 months the maximum number of hours of required participation would be determined by dividing the AFDC payment by the higher of the applicable State or Federal minimum wage. After 9 months, the wage rate used to calculate hours must be the same as for a regular employee doing the same or similar work for the same employer, at the same site.

c. *Displacement.*—No work assignment may result in: (1) the displacement of a currently employed worker or position; (2) impairment of existing contracts for services or collective bargaining agreements; (3) the employment of the participant when (A) any other person is on layoff from the same or any equivalent position, or (B) the employer has terminated any regular employee or otherwise reduced his workforce with the effect of filling the vacancy with a participant under the JOBS program; and (4) any infringement of the promotional opportunities of any currently employed individual. Participants in CEWP, work experience, and work supplementation may not fill established unfilled positions.

d. *Net Loss of Income.*—Participants may not be required to accept a job under the JOBS program unless the State agency assures that the participant's family will experience no net loss of cash income resulting from acceptance of the job.

17. Types of Services and Activities

State JOBS programs must provide for a broad range of services and activities including, among others, education, job training and readiness activities. Programs must include at least two out of the following four activities: job search, CWEP or other work experience, grant diversion, or on-the-job training (OJT).

18. Federal/State Funding

Funding is in the form of a capped entitlement. The Federal matching rate is 90 percent for expenditures up to the amount allotted for WIN in fiscal year 1987. Of additional amounts, the Federal match would be at the Medicaid matching rate, with a minimum Federal match of 60 percent for nonadministrative costs and for personnel costs for full-time staff working on the JOBS program. The match for other administrative costs would be 50 percent. States receive an amount equal to their WIN allotment for fiscal year 1987 ($126 million for all States). The cap on the entitlement funding is $600 million in fiscal year 1989, $800 million in fiscal year 1990, $1 billion in fiscal years 1991, 1992, and 1993, $1.1 billion in fiscal year 1994, $1.3 billion in fiscal year 1995, and $1 billion a year thereafter. JOBS program funds may not be used for construction.

19. Priority/Target Population

Federal matching will be reduced to 50 percent unless 55 percent of funds is spent on the following target populations: (1) families in which the custodial parent is under age 24 and (a) has not completed high school or is not enrolled in high school or an equivalent course, or (b) had little or no work experience in the preceding year; (2) families in which the youngest child is within 2 years of being ineligible for assistance because of age; (3) families who have received assistance for more than 36 months during the preceding 60-month period. Volunteers must receive first consideration within target groups.

20. Grievance Procedure

States must establish and maintain grievance procedures for resolving complaints by regular employees or their representatives that assignments violate displacement provisions. State decisions may be appealed to the Secretary of Labor.

21. Performance Standards and Reporting Requirements

No later that 3 years after the mandatory effective date of the program, the Secretary must develop performance standards and submit recommendations to the Committees with jurisdiction over the program. Performance must be measured by outcome and not only by levels of activity or participation, and must be based on the degree of success which may be expected in helping participants increase earnings, achieve self-sufficiency, and reduce welfare dependence.

22. Evaluations/Effectiveness Studies

Implementation and effectiveness studies are authorized. For the evaluation study, an advisory panel to design, implement, and monitor the study will be established.

23. WIN Transition/Effective Date

The WIN program is repealed effective October 1, 1990 and replaced with the JOBS program. States may implement the JOBS program earlier, after proposed regulations have been published.

C. TRANSITIONAL ASSISTANCE FOR FAMILIES AFTER LOSS OF AFDC ELIGIBILITY

1. Child Care During Participation in Work, Education, and Training

a. *General Requirement.*—The State agency is required to guarantee child care if it determines that child care is necessary for an individual's employment. Child care must also be guaranteed for education and training activities including JOBS if the State agency approves the activity and determines that the individual is participating satisfactorily. The State must take account of the individual needs of the child whenever it arranges child care.

b. *Methods of Providing/Reimbursing.*—The State agency may provide care itself, arrange care by use of contract or vouchers, provide cash or vouchers in advance to the caretaker relative, reimburse the caretaker relative, or adopt any other arrangements deemed appropriate by the agency. Reimbursement for the cost of care may not be less than the amount of the child care disregard for which the family is otherwise eligible nor more than actual cost or applicable local market rates, regardless of the method selected to provide care.

c. *Federal Matching Rate.*—The Federal matching rate is the Medicaid rate.

d. *Child Care Standards.*—Child care must meet applicable standards of State and local law. States are required to develop guidelines for family day care. States are required to establish procedures to assure that center-based child care will be subject to requirements designed to ensure basic health and safety, including fire safety, protections. The State must also develop guidelines for family day care. The State is required to provide the Secretary a description of these State and local determined requirements and guidelines, which will be used to report to Congress on the nature and content of State and local standards for health and safety. An amount of $13 million is authorized for each of fiscal year 1990 and fiscal year 1991 for grants to States to improve their child care licensing and registration requirements and procedures, and to monitor child care provided to AFDC children.

e. *Income and Tax Treatment of Child Care Benefits.*—The value of day care provided would not be treated as income for any other Federal or Federally-assisted need-based program and may not be claimed as an employment-related expense for tax purposes.

2. Transitional Child Care Assistance

a. *General Requirement.*—Child care must be guaranteed to the extent the care is determined by the State agency to be necessary for an individual's employment in any case where a family has ceased to receive assistance as a result of increased hours of, or increased income from employment, or as a result of the loss of earnings disregards.

b. *Limitations on Assistance.*—Child care is limited to 12 months after the last month for which the family received assistance. The Secretary of HHS is directed to study the extent to which individuals return to the welfare rolls to requalify for additional months of transitional benefits. If the study shows that this has occurred, the Secretary is required to issue regulations to restrict requalification.

c. *Fee Requirement.*—The States must establish sliding-scale fee schedules based on the ability to pay of the family.

d. *Study of Effects.*—The Secretary of HHS is required to study the effectiveness of the child care transition and report to Congress by January 1, 1993.

e. *Termination of Child Care Transition.*—The provision takes effect on April 1, 1990 and expires after September 30, 1998.

3. Transportation and Work-Related Expenses

The State must provide payment or reimbursement for necessary transportation and other work-related supportive services that the State determines are necessary to enable an individual to participate in JOBS. Federal matching is 50 percent, subject to the cap on JOBS funding.

4. Transitional Medical Assistance

The States must extend Medicaid coverage for one year to families who leave cash assistance because of increased earnings or loss of the earnings disregards. During the second 6 month period, States may impose an income-related premium on families with earnings (less necessary child care expenses) above the Federal poverty level. This provision takes effect on April 1, 1990 and expires after September 30, 1998, when the current law 4-month transitional benefit would be reinstated.

5. Disregard of Income

a. *Changes in Income Disregards.*—The standard income disregard increases from $75 to $90. The disregard for child care costs increases from $160 to $175 per child per month ($200 for a child under 2 years old) and is subtracted after other disregard provisions.

b. *Treatment of Earned Income Tax Credit.*—The earned income tax credit may not reduce AFDC benefits.

D. RELATED AFDC AMENDMENTS

1. Benefits for Unemployed Parents (AFDC–UP)

States are required to have an unemployed parent program. States that have an unemployed parent program as of September 26, 1988 must continue operating such programs without any time limit on eligibility. Other States may limit benefits to as few as 6 months in any 12-month period. States are required to provide full Medicaid coverage to all family members even in months when benefits are not paid because of the time limit. The provisions relating to benefits for unemployed parents are effective October 1, 1990 and terminate September 30, 1998.

2. Benefits for Minor Parents

Except under certain circumstances, States may require minor parents to live with their parents in order to receive AFDC benefits.

3. Need and Payment Standards

Each State must reevaluate its need and payment standards every 3 years.

4. Study of Alternative Minimum Benefit Proposals

Studies by the National Academy of Sciences and the Congressional Budget Office (CBO) of minimum benefit proposals are required.

E. DEMONSTRATION PROJECTS

1. Family Support Demonstrations

Four family support demonstration projects are authorized on education and training programs for children, early childhood development programs, community-based family support services and using nonprofit organizations to create employment opportunities.

2. Other Demonstrations

Other demonstration projects are authorized, including training AFDC mothers as paid day care providers, projects to provide counseling and services to high-risk teenagers, and an extension of the Minnesota Medicaid demonstration project.

F. MISCELLANEOUS PROVISIONS

1. Uniform Reporting Requirements

The Secretary must establish uniform reporting requirements to ensure effective implementation of the Medicaid and child care transitions.

2. State Reports on Social Service Funds

States must submit annual reports including specific data. The Secretary of HHS is directed to establish uniform definitions.

3. Provisions Affecting Puerto Rico, The Virgin Islands, Guam, and American Samoa

American Samoa is authorized to participate in all programs under title IV of the Social Security Act. Its funding is limited to $1 million per year for AFDC, foster care, and adoption assistance. Limits on grants to Puerto Rico, Virgin Islands, and Guam are raised to $82, $2.8, and $3.8 million, respectively.

4. *AFDC Quality Control*

The moratorium on collections of disallowances is extended under the AFDC Quality Control system until July 1, 1989.

5. *Preeligibility Fraud Detection*

States are required to institute preeligibility fraud measures.

6. *Revenue Provisions*

Extends for 5 years the program for IRS collection of nontax debts owed to Federal agencies.

Lowers the age of a dependent for whom the child care credit or exclusion may be claimed to ages under 13 (rather than 15, as under present law).

Reduces amounts eligible for the dependent care credit by the amount of expenses excluded from taxable income by the dependent care exclusion.

Provides that the dependent care exclusion and credit are available only if the taxpayer reports on his or her tax return the correct name, address and taxpayer identification number (TIN) of the dependent care provider. However; the taxpayer is not required to report the TIN, but only the name and address, of a child care provider which is a tax exempt charitable institution. A taxpayer who fails to report the correct name, address and TIN of the child care provider is not denied the credit or exclusion if the taxpayer can demonstrate that he or she exercised due diligence in trying to provide the information.

Provides that a taxpayer claiming an exemption for a dependent who is at least 2 years old before the close of the taxable year (rather than 5 years old, as under present law) must include the social security number of the dependent on the taxpayer's tax return.

Provides that expenses incurred under nonaccountable account plans, that is, plans under which the taxpayer does not have to account to his or her employer for reimbursed expenses, or return to the employer reimbursements in excess of actual expenditures, are deductible only as itemized deductions subject to the 2 percent floor.

CBO ANALYSIS OF COST AND IMPACT OF THE FAMILY SUPPORT ACT OF 1988 [6]

Cost

New Federal Government costs projected under the act will total $3.3 billion over the 5-year period from fiscal years 1989 through 1993. The act includes funding provisions primarily dealing with the recovery of debts owed the Federal Government and changes in the dependent care credit under the income tax system. Revenues and receipts from the funding provisions will balance the added spending and leave the projected Federal deficit essentially unchanged over the 5 years (see table 38).

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[6] This section is based entirely upon a CBO staff working paper entitled "Work and Welfare: The Family Support Act of 1988," January 1989.

Also, as shown in table 38, the bill will add new projected costs of $0.7 billion to State and local governments. This is one-fifth of Federal Government costs. Moreover, States will be affected very differently by the act, depending on whether they already have an AFDC-Unemployed Parent program and on the size of their existing work-related programs.

The major elements of the JOBS, child care transition, and Medicaid transition programs are summarized in table 39.

TABLE 38.—COST SUMMARY OF MAJOR PROVISIONS OF THE FAMILY SUPPORT ACT OF 1988

[Fiscal year, in millions]

	1989	1990	1991	1992	1993	Total 1989–93
Federal costs (CBO estimates):						
JOBS Program:						
Establish JOBS	33	242	357	277	167	1,076
Add mandatory participation rates	—	—	45	75	45	165
Other	0	1	7	6	2	18
Transitional assistance:						
Reimburse child care for 12 months after leave AFDC	—	25	205	245	260	735
Provide Medicaid for 12 months after leave AFDC	—	5	105	155	165	430
AFDC–UP Program:						
Mandate AFDC–UP [1]	—	—	315	397	441	1,153
Child support enforcement:						
Mandate income witholding	—	—	−25	−55	−90	−170
Mandate child support guidelines	—	−25	−70	−115	−160	−370
Other	5	12	56	38	30	141
Miscellaneous:						
Expand earnings disregards	—	30	45	45	45	165
Other	24	23	−16	−30	−39	−38
Total outlays:						
CBO [2]	62	313	1,024	1,038	866	3,305
OMB	61	359	864	1,145	1,170	3,601
OMB [2]	364	652	787	626	1,170	3,601
Revenues (Joint Committee on Taxation estimates):						
IRS debt collection	400	400	400	400	400	2,000
Restrict child care tax credit to children < 13 (current law < 15)	9	86	90	93	97	375
Taxpayer id no. required of service provider to obtain child care credit	37	102	121	132	137	529
Other	27	90	97	105	111	430

TABLE 38.—COST SUMMARY OF MAJOR PROVISIONS OF THE FAMILY SUPPORT ACT OF 1988—Continued

[Fiscal year, in millions]

	1989	1990	1991	1992	1993	Total 1989–93
Total Revenues:						
Joint Committee on Taxation	473	678	708	730	745	3,334
Administration	422	629	691	795	834	3,371
State and local costs:						
JOBS Program:						
Establish JOBS	−4	−63	−133	−158	−169	−527
Add mandatory participation rates	—	—	30	50	35	115
Other	0	0	1	1	1	3
Transitional assistance:						
Reimburse child care for 12 months after leave AFDC	—	15	120	145	150	430
Provide Medicaid for 12 months after leave AFDC	—	5	85	125	135	350
AFDC–UP Program:						
Mandate AFDC–UP [1]	—	—	232	294	323	849
Child support enforcement:						
Mandate income withholding	—	—	−25	−65	−105	−195
Mandate child support guidelines	—	−35	−85	−135	−180	−435
Other	−1	−2	18	−3	−22	−10
Miscellaneous:						
Expand earnings disregards	—	47	57	57	62	223
Other	13	−6	−29	−38	−40	−99
Total outlays	8	−39	271	273	190	704

[1] Includes two related provisions, one of which allows States to amend the "quarters of work" rule and a second which requires demonstrations of the 100-hour rule.

[2] OMB and CBO have very similar projections of outlays of the Family Support Act of 1988. CBO projects a total 5-year cost of $3.3 billion, while OMB projects total outlays of $3.6 billion. Their primary estimating difference was the impact of the AFDC quality control moratorium. CBO estimates this would have no impact because under current law, their baseline assumes no collections of quality control penalties from the States in fiscal year 1989. OMB estimates, however, this would increase outlays by $303 million in 1989 and $293 million in 1990 with corresponding reductions of $77 million in fiscal year 1991 and $519 million in fiscal year 1992. The first OMB line shows the OMB estimates without the provision to impose a quality control moratorium, and the second OMB line presents the official OMB estimates of the act.

Source: Congressional Budget Office, Office of Management and Budget and Joint Committee on Taxation.

Estimated impacts of JOBS

JOBS should alter significantly the extent of training, education, and other work-related programs for AFDC recipients. Not only will Federal funds for these activities increase, but States should also be able to count on the funds because JOBS is an entitlement program, albeit with spending caps. (Supportive services under WIN were also meant to be an entitlement, but they were never treated as such by the appropriations committees.) Moreover, the nature of many State programs will also have to change because of JOBS requirements: assessments of participants' needs and skills will now be required, and certain groups of recipients, thought to benefit most from work-related programs, will have to be given priority. The numbers of nonexempt recipients will increase sharply because of the lowering of the age of the youngest child exemption. As a result of these and other JOBS provisions, spending on work-related programs will rise significantly, as will the numbers of recipients participating in such programs.

The numbers of additional participants in work-related programs, above those participating before the JOBS program, are estimated by CBO to rise from 15,000 in 1989 to 360,000 in 1993 (see table 40). As the required participation rate rises to 15 percent in 1994 and to 20 percent in 1995, the numbers of new participants will rise still more—to an estimated 550,000 in 1994 and 800,000 in 1995. Requiring, or allowing, more AFDC families to participate in work-related programs will lead to savings in welfare programs, as participants find jobs or as potential participants are sanctioned (that is, removed from AFDC) for failure to participate or as they leave AFDC rather than participate. CBO estimates that 10,000 families will leave AFDC in 1991 and that 20,000 will leave in 1993 as a result of the JOBS program, as shown in table 40. By the end of 5 years, 50,000 families will have left AFDC, a 1.3 percent reduction in the number of AFDC families. The effect of the JOBS program on AFDC recipiency or on spending on benefits in welfare programs is thus expected to be modest.

As families leave AFDC, or remain on AFDC with reduced benefits, savings accrue in the program. Savings accrue to the Medicaid program as families leave AFDC and lose automatic eligibility for benefits; savings may accrue to the Food Stamp program if participants' earnings rise sufficiently. Such savings to the Federal Government are estimated to rise from $5 million in 1989 to $245 million in 1983, totaling $500 million over the 5-year period (see table 41). State governments also share in the AFDC and Medicaid savings, which are estimated to total $335 million over the five years.

Many uncertainties surround these estimates. Data on current AFDC work-related programs are poor or lacking. Only rudimentary knowledge exists of the budgetary effects of AFDC work-related programs in general, and even less is known about the effects of specific design options. Finally, how States react to JOBS will have a major influence on outcomes.

Three critical estimates and assumptions concerning JOBS

Although dozens, perhaps even hundreds, of specific assumptions and estimates underlie the costs and effects discussed above, a few stand out in importance. First are the CBO estimates of current and projected spending on AFDC work-related programs prior to JOBS. Second are the estimates of costs of work-related programs per participant and effects on welfare programs. Third are the assumptions of how states will respond to the incentives and requirments in JOBS.

TABLE 39.—IMPORTANT ELEMENTS OF JOBS AND THE TRANSITIONAL CHILD CARE AND MEDICAID PROGRAMS

Important elements of JOBS:

Funding provisions: Federal Match rates: 90 percent for $126 million (equal to 1987 WIN funding); AFDC benefit match rate with a floor of 60 percent for most expenditures (the highest state benefit match in 1989 will be 80 percent); AFDC benefit match rate for child care; 50 percent for most administrative costs and other services.

Entitlement caps (excluding child care).

[Fiscal year, in millions of dollars]

1989	600
1990	800
1991	1,000
1992	1,000
1993	1,000
1994	1,100
1995	1,300
1996 and after	1,000

Work-related activities: States must include these activities: education, job skills training, job readiness, job development and job placement.

States must include two of the following activites: group and individual job search, on-the-job training, work supplementation, community work experience or other approved work experience.

Priority groups: States must spend 55 percent of their funds on:

(1) Recipients or applicants who have received AFDC for any 36 of the preceding 60 months.
(2) Parents under age 24 who have not completed high school or had little or no work experience in the preceding year.
(3) Members of families whose youngest child is within two years of being ineligible for AFDC.

States must give priority to volunteers within these three groups.

Participation requirements:

[Fiscal year, in percent]

General:	
1990[1]	7
1991	7
1992	11
1993	11
1994	15
1995	20
AFDC–UP:	
1994	40
1995	50
1996	60
1997	75
1998	75

Important elements of the Transitional Child Care Program:	
Funding provisions	Uncapped entitlement at AFDC benefit match rate (50 percent to 80 percent).
Eligibility	Families who leave AFDC because of increased earnings, hours of work, or loss of the earnings disregards. Families must have received AFDC in at least three of the preceding six months. No income limits.
Benefits	Direct child care services, vouchers, cash, reimbursements, or other arrangements adopted by state agency. Care must meet state and local standards. Last for 12 months.
Maximum payments	Reimbursements are limited to actual costs, up to local market rates. States may set payment maximums below market rates. These caps may not be less than the AFDC child care disregards of $175 a month for children two years and older and $200 a month for children under age two unless local market rates are lower than these levels.
Family copayments	Vary with family's ability to pay as determined by states in sliding scale formulas.
Effective dates	Program begins April 1, 1990. Program ends September 30, 1998.
Important elements of the Transitional Medicaid Program:	
Funding provisions	Uncapped entitlement at Medicaid match rate (50 percent to 80 percent).
Eligibility	Families who leave AFDC because of increased earnings, hours of work, or loss of the earnings disregards. Families must have received AFDC in at least three of the preceding six months. Families whose average gross monthly earnings (less necessary child care expenses) are below 185 percent of the poverty thresholds.
Benefits	Last for 12 months. Second six months are contingent on payment of a premium, which is at state option.
Premiums	States allowed to charge a premium after six months to families whose average gross monthly earnings (less necessary child care expenses) are above the poverty thresholds. Premiums limited to no more than 3 percent of a family's average gross monthly earnings.
Effective dates	Program begins April 1, 1990. Program ends September 30, 1998.

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[1] There is no penalty for not meeting the 1990 requirements.

Source: Congressional Budget Office.

TABLE 40.—ESTIMATED NUMBER OF PARTICIPANTS IN JOBS AND THE TRANSITIONAL CHILD CARE AND MEDICAID PROGRAMS

	1989	1990	1991	1992	1993	Five-year total
Jobs:						
Additional participants in work-related programs [1]	15,000	85,000	235,000	360,000	360,000	1,055,000
Families off AFDC as a result of JOBS [1]	([2])	5,000	10,000	15,000	20,000	50,000
Child care transition: Participating children		140,000	280,000	280,000	280,000	
Medicaid transition:						
Families participating during their first 6 months [3]		200,000	440,000	440,000	445,000	
Families continuing participation during their second 6 months [3]			260,000	265,000	265,000	
Average number of families participating during fiscal year [3]		200,000	350,000	355,000	355,000	

[1] These estimates represent additions to participants in work-related programs and additions to families leaving AFDC prior to the JOBS program. The 5-year total may reflect some double-counting because some individuals may participate in more than one work program.

[2] Fewer than 500 families.

[3] These are all families receiving transitional assistance. All such families also received Medicaid under prior law but usually for shorter periods of time or only after a "spend-down" of their own funds if they were "medically needy."

Source: Congressional Budget Office projections.

Projected spending prior to JOBS.—In the CBO estimates, State and local government funding of AFDC work-related programs prior to JOBS is projected to total $431 million in fiscal year 1989. State and local funding is projected to rise to $537 million in 1990 before declining to $393 million in 1993 (see table 41). The sharp rise, and then decline, in spending is caused by projections for California. California is running the largest AFDC work-related program in the country—Greater Avenues for Independence (GAIN)—for which spending in their fiscal year 1988–89 is estimated to total $408 million. In the early years of GAIN, many participants are being put into education and training activities, which raises costs. Later on, as more participants are put into activities like CWEP, spending is projected to decline. The California GAIN program accounts for about 60 percent of CBO's estimated non-WIN spending in 1989 and 50 percent in 1993, thus driving the national spending estimates.

The components of spending for work-related programs are shown in table 41. Spending matched by the Federal Government under AFDC, primarily on job search and CWEP activities, is projected to rise from $240 million in 1989 to $280 million in 1993. Spending on education and training paid for entirely from State and local moneys is estimated to total $300 million in 1989, accounting for 46 percent of all spending.

Per-participant costs and effects on welfare program budgets.—Where possible, estimates of costs and effects per participant were based on published studies by the Manpower Demonstration Research Corp. (MDRC) of findings on AFDC work-related programs in selected States (see table 41). These estimates were adjusted in several ways.

Estimated savings (Federal and State) per JOBS participant are shown in table 41 for the various programs. These savings are quite modest, and reflect the modest effects of work programs found in the MDRC studies. AFDC benefits were estimated to be reduced by $320 in 1989, AFDC administrative costs by $45, Food Stamp benefits by $65, and Medicaid costs by $100. Most participants will not find a job or be removed from AFDC as a result of JOBS, so that savings per participant on average are quite small. For a participant who is affected by the work program, however, savings will be much higher.

Moreover, savings do accumulate over time because participants affected by the work program may contribute to welfare savings for a number of years. For example, for 100,000 participants in a work program in year 1, AFDC savings (Federal and State) would rise from $20 million in year 1 to $50 million in year 2, and then decline gradually to $35 million in year 5. But as 100,000 more participants were put into work programs each year, AFDC savings would rise from $20 million in year 1 to $205 million in year 5. Total savings in the three welfare programs—AFDC, Food Stamps, and Medicaid—would rise from $30 million in year 1 to $295 million in year 5.

Just as welfare savings accumulate over time, so also do the numbers of families off AFDC. Based on an example of 100,000 work program participants each year, 33,000 families would be off AFDC at the end of five years, about 6.6 percent of work program participants.

State responses to JOBS.—The JOBS program combines both a carrot and a stick approach in attempting to raise spending on AFDC work-related programs. On the one hand, the program raises Federal match rates above those under the law prior to JOBS, inducing States to spend more. On the other hand, the program sets participation rate requirements that States must meet or be penalized. How States respond to these program changes will determine future spending on work-related programs, but the nature of their responses is uncertain.

Participation rate requirement in JOBS

To meet the participation rate requirement, Federal and State governments will be required to increase spending by an estimated total of $280 million over the 1989–93 period (see table 38). Not all States will be affected by the requirement, however, because some will already have surpassed their participation targets.

TABLE 41.—VARIOUS COST PARAMETERS AND ASSUMPTIONS USED BY CBO TO PROJECT OUTLAYS UNDER THE FAMILY SUPPORT ACT OF 1988

[By fiscal year]

	1989	1990	1991	1992	1993	Five-year total
Estimated cost and savings of JOBS Program (millions of dollars):						
Federal:						
Gross cost [1]	38	267	467	513	458	1,742
Savings:						
AFDC	−5	−15	−45	−105	−160	−330
Medicaid	(2)	−5	−10	−25	−40	−80
Food stamps	(2)	−5	−10	−30	−45	−90
Net cost	33	242	402	352	212	1,241
State:						
Gross cost or savings [1]	−4	−53	−53	2	31	−77
Savings:						
AFDC	(2)	−10	−40	−85	−130	−265
Medicaid	(2)	(2)	−10	−25	−35	−70
Net cost	−4	−63	−103	−108	−134	−412
Estimated spending on AFDC work-related programs before JOBS Program (millions of dollars):						
Federal:						
WIN	96	100	104	108	113	....
AFDC spending [3]	120	155	165	145	140	....
Total	216	255	269	253	253	....
State:						
WIN	11	11	12	12	13	....
AFDC spending [3]	120	155	165	145	140	....
Non-AFDC spending [4]	300	425	360	305	240	....
Total	431	591	537	462	393	....
Estimated total costs per JOBS participant (dollars):						
Education and training programs	2,500	2,635	2,775	2,920	3,075	....
Other work-related programs	840	885	930	980	1,030	....
Average cost [5]	1,390	1,465	1,540	1,620	1,705	....
Estimated total savings per JOBS participant (dollars):[6]						
AFDC benefits	320	330	345	355	370	....
AFDC administration	45	45	45	45	50	....
Food stamp benefits	65	70	70	75	80	....
Medicaid	100	110	120	130	140	....
Estimated Federal spending as a percent of entitlement caps:						
Entitlement caps (millions of dollars):[7]	75	536	1,000	1,000	1,000	....
Gross Federal spending subject to caps (millions of dollars):[8]	50	345	600	635	590	....

TABLE 41.—VARIOUS COST PARAMETERS AND ASSUMPTIONS USED BY CBO TO PROJECT OUTLAYS UNDER THE FAMILY SUPPORT ACT OF 1988—Continued

[By fiscal year]

	1989	1990	1991	1992	1993	Five-year total
Spending as a percent of caps (percent)	67	64	60	64	59	
Effects of participation rate requirement:						
Participation rate (percent)	7	11	11	15	20	
Required participants each month	135,000	210,000	215,000	295,000	400,000	
Additional participants in a year [9]	115,000	260,000	260,000	450,000	700,000	
Number of affected states	26	34	34	39	42	
Child care costs: Average monthly child care cost (dollars)		123	129	134	140	
Annual medicaid costs per family (dollars):						
Families with health insurance	594	648	713	773	832	
Families without health insurance	2,120	2,314	2,545	2,759	2,970	
Average [10]	1,342	1,464	1,611	1,746	1,880	

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[1] Costs are in addition to spending on AFDC work-related programs prior to the JOBS program.

[2] Less than $500,000.

[3] Spending on work-related programs covered by the AFDC Federal match rate.

[4] Spending on work-related programs for AFDC recipients that is not matched by the Federal Government. Spending is primarily for education and training and does not include spending under the Job Training Partnership Act programs.

[5] Average costs assume 33 percent of participants will be in education and training and 67 percent will be in other work-related programs. Costs do not include costs of assessments, employability plans, or extra child care for young children.

[6] Savings are for the 4th year after a person's participation in JOBS. Savings in the 1st through 3rd years after a person's participation are usually higher because the savings for a single participant diminish over time.

[7] In 1989 and 1990, the entitlement caps in the act are $600 million and $800 million, respectively. States may join the JOBS program before 1991. The caps will be reduced to allow for only those States actually in JOBS. The CBO assumed that 12.5 percent of spending in 1989 and 67 percent in 1990 will be covered under JOBS, and multiplied the entitlement caps by these percentages.

[8] Spending subject to the caps is gross Federal spending under JOBS, excluding child care expenses.

[9] Additional participants are those resulting only from the participation requirement. The estimates assume that participants will be in a work program for 3.3 months of the year, so that over the course of the year there will be more total participants than those required to be in a program in each month of the year.

[10] Costs per family are before premiums are charged; average costs rise after premiums because participation rates of families with and without health insurance change.

Source: Congressional Budget Office.

The participation rate estimates are quite uncertain, for several reasons. First, States could choose not to meet the targets and take the reduced Federal match rate, or they could overshoot the targets in attempting to meet them. Second, the amounts States will spend per work program participant could either raise or lower the cost. Third, the welfare savings are uncertain. Finally, the estimates of State-by-State distributions of spending on work-related programs are quite poor. Because some States fail to report spending on work programs at all, the costs of this provision may, on this count, be overestimated.

Transitional child care assistance

An estimated 280,000 children per month are expected to receive transitional child care assistance beginning in 1991 (see table 40). The majority of these children will be under 6 years of age. Fewer than half of the children eligible for transitional care subsidies are expected to participate, reducing potential program costs. The remaining children will continue to be placed in informal and unpaid child care arrangements.

Eligible children.—Eligibility is restricted to families who leave the AFDC program because of increased earnings, hours of work, or loss of the earnings disregards. Although many families leaving AFDC have some earnings, the principal reason for leaving welfare is often the marriage of the female head of household, or another change in family composition. One study estimated that only 20 percent to 40 percent of the families who left AFDC did so because of increased family earnings.

Based on this research and on AFDC program statistics, CBO estimated that one-fourth of the 1.9 million families leaving AFDC annually do so because of increased earnings or loss of the earnings disregards.

Participation rate.—Only 36 percent of the eligible children are expected to receive government-paid child care assistance. This participation rate was based on a CBO estimate that 36 percent of children of single working mothers will be in paid child care arrangements in 1993. The remaining 64 percent are assumed to be in informal and unpaid child care arrangements. Estimated participation rates are much higher for children under 6 than for school-age children. Thus, although younger children account for less than 40 percent of the eligible children, they account for nearly three-fourths of participating children.

Child care costs.—Child care costs for children under age 15 are estimated to average $159 per month in 1988 dollars. Cost estimates vary by the age of the child, decreasing from $180 for infants (under age 2) to $169 for preschoolers (2 through 5) to $118 for school-age children (6 through 14). These costs were reduced by monthly copayments averaging $47 per month in 1988 dollars.

Transitional medicaid assistance

Federal Government costs for transitional Medicaid assistance are estimated to rise from $5 million in 1990 to $165 million in 1993, and will total $430 million over the 5-year period 1989 to 1993 (see table 38). State costs are estimated to rise from $5 million in 1990 to $135 million in 1993. These are net costs after allowing for the effects of premium charges.

Premium charges will reduce federal costs by an estimated $16 million in 1991 and $30 million a year in 1992 and 1993. This reduction includes both the Federal Government's share of any premium collections and the savings resulting from participants who drop out rather than pay the premium. For many States, the administrative costs of collection will be high enough to deter them from imposing the premiums.

Under the new law, the number of families that will receive the extended Medicaid benefits will vary before and after imposition of the premium. An estimated 445,000 families will participate during their first 6 months of receiving benefits in 1993, but the number is estimated to decline to 265,000 by their second 6 months as a result of the premiums (see table 40). All of these families would have received some Medicaid under previous law, but usually for shorter periods and without having to pay any premium. The only group that clearly loses benefits is that small number of families who would have received 15 months of transitional assistance under previous law. Families that would have received 9 months of assistance could also lose benefits, if they are charged premiums and choose not to pay them.

An estimated 55 percent of the families leaving AFDC because of increased earnings will have health insurance. Some families with health insurance will choose not to use Medicaid, even though they remain eligible, and the rest will have lower Medicaid costs because Medicaid will act as a secondary payer. Although no data exist on Medicaid costs for families with private health insurance, CBO assumed that their Medicaid costs will be just under 30 percent of "full" costs—that is, the costs incurred by families without private health insurance—and that 85 percent of these families will retain Medicaid, at least until the premium is due at the end of the first 6 months.

For the 220,000 families without private health insurance, CBO assumed a participation rate of 100 percent and standard Medicaid costs. Average Medicaid costs for these families were estimated to be $2,120 in 1989 and $2,970 in 1993, rising at an annual rate of about 9 percent. Because the adults in these families will be working, and presumably healthy, average costs are estimated to be only 80 percent of the overall Medicaid average cost for the same size family.

The costs of providing Medicaid benefits to these families under previous law were also estimated as the product of numbers of families and costs per family. As discussed earlier, CBO assumed that several groups received benefits under prior law. Of those families, 85 percent were estimated to receive 4 months of assistance after leaving AFDC because of increased earnings or hours of work, and 15 percent were estimated to receive a minimum of 9 months of transitional assistance. About one-third of the 15 percent were estimated to receive an additional 6 months available in some States. The estimated average cost per family of each of these groups was the same as for families without private health insurance under the new law, but was adjusted for their differing lengths of eligibility. In addition, 35 percent of these families were assumed to qualify for Medicaid under medically needy provisions after they lost their transitional Medicaid assistance. Costs were also increased slightly to account for recent legislation that extended Medicaid to low-income pregnant women and young children.

Premium offsets.—The Federal costs of the Medicaid transition provision, before any premium offsets, were estimated to rise from $5 million in 1990 to $195 million in 1993. These costs were offset by the effects of allowing States to charge a premium during the second 6 months of the 12-month extended benefit period. The total premium offset reaches $30 million per year by 1993, reducing the costs of the provision by 15 percent.

Summary of impacts

The Family Support Act is estimated to raise Federal spending on welfare programs by $3.3 billion over the 1989–1993 period. To pay for this spending, the act includes provisions that will either raise revenues or reduce other outlays by the same $3.3 billion over the 5 years.

Costs to States and localities will be much less than to the Federal Government. Groups of States will be affected quite differently by the act. States that do not have an AFDC-UP program will experience significantly increased costs. States that already have large work-related programs, especially if they also provide some transitional benefits, will face only small increases in costs or perhaps even save money. States with minimal work-related programs, on the other hand, will experience substantially increased budgets.

The numbers of families receiving AFDC benefits will be changed only slightly by the act's provisions during the next 5 years, according to CBO estimates. The provisions that mandate the AFDC–UP program in all States and change the deductions from earnings will add an estimated 80,000 families each month, an increase of about 2 percent from the 3.7 million families now receiving AFDC. On the other hand, the JOBS program is estimated to reduce the number of AFDC families by about 50,000 after 5 years. Also, the Child Support Enforcement provisions and the preeligibility fraud detection provision will reduce the numbers of families receiving AFDC, although the size of the reduction is not certain.

Beyond the 5-year projection period, the number of families leaving AFDC because of the JOBS program will continue to grow. If the participation requirement is not extended beyond 1995, however, the numbers leaving will be smaller than they otherwise might be.

The two transition provisions will also increase benefits, but only to families that have left AFDC. Transitional child care assistance will provide new benefits to 280,000 children and their families each month. In addition, transitional Medicaid assistance will provide expanded benefits each month to an estimated average of 355,000 families who now receive some Medicaid after they leave AFDC.

Impact on AFDC–UP.—The Family Support Act mandates that all States establish AFDC-UP programs for two-parent families in which the primary earner is unemployed; the provision is effective October 1, 1990, and will be repealed September 30, 1998. Currently, 22 States do not have the AFDC-UP program. States will be given several options: to limit cash assistance to a period of no less than 6 months in any 12-month period (but States with existing AFDC-UP programs may not limit their assistance); to require participation in work-related activities by one or both adults for up to 40 hours a week; and to pay benefits only after performance in the work-related activity. Even if a State limits the duration of AFDC assistance, it must provide Medicaid assistance as long as the family is otherwise eligible. This provision is estimated to bring an average of 65,000 new families onto AFDC each month, based on the assumption that newly mandated States will limit benefits to 6 months a year. If all of the affected States instead provided 12 months of benefits, 105,000 new families would be on AFDC each month and Federal costs would rise from $420 million to $520 million in 1993

Impact from changes in earnings disregards.—AFDC families with earnings are assisted by liberalizing the earned income disregards. The act will raise the standard earnings deduction from $75 a month to $90 a month. This change is estimated to bring about 15,000 new families onto AFDC and to help another 220,000 or so with earnings. The cap on deductions for child care will be raised from $160 per month per child to $175 for children 2 years of age and older and to $200 for younger children. Also, instead of subtracting the allowed child care from earnings before taking the one-third disregard, families will take the disregard first, which will increase its amount. Finally, the Earned Income Tax Credit will be disregarded. Together, these provisions will cost the Federal Government $165 million over the 5 years.

THE 1987 AMENDMENTS

In December of 1987, Congress enacted H.R. 3545, the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203). This new law includes four AFDC amendments, which are summarized below:

1. Fraud control under AFDC program.—Effective April 1, 1988, authorizes 75 percent Federal funding for the costs of a State's fraud control program.

2. Assistance to Homeless families.—Prohibits the Secretary of Health and Human Services, prior to October 1, 1988, from taking any action that would have the effect of implementing, in whole or in part, the proposed regulations published in the *Federal Register* on December 14, 1987. These regulations would have restricted the use of AFDC emergency assistance funds for homeless families and would have limited States' authority to make payments for special needs of AFDC recipients. The moratorium on promulgation of regulations is intended to give Congress an opportunity to determine whether and how the current AFDC statute should be amended to respond to the problems of homeless families.

3. Washington State Demonstration Program.—Allows the State of Washington to conduct a demonstration of its proposed Family Independence Program.

4. New York State Demonstration Program.—Allows the State of New York to test a child support supplement demonstration program as an alternative to the present AFDC program.

THE 1984 AMENDMENTS

In June of 1984, Congress enacted H.R. 4170, the Deficit Reduction Act of 1984 (Public Law 98-369). This new law, which took effect on October 1, 1984, includes 22 AFDC amendments and an income and asset verification amendment which affected several programs, and are summarized below:

1. Gross income limitation.—Under prior law, eligibility for AFDC was limited to families with gross incomes at or below 150 percent of the State standard of need. The act increases the gross income limitation to 185 percent of the State standard of need.

2. Work expense deduction.—Under prior law, States were required to disregard the first $75 of monthly earnings for full-time work expenses; a lower deduction applied to part-time workers. The act requires States to disregard the first $75 monthly for full and part-time workers.

3. Continuation of $30 disregard.—Under prior law, the $30 plus one-third of remaining earnings disregard was limited to 4 months. The act retains the 4-month limit on the one-third disregard but extends the $30 disregard for an additional 8 months for a total of 12 months.

4. Work transition status.—Under prior law, a family who lost AFDC eligibility due to the 4-month limit on the earnings disregard, simultaneously lost categorical eligibility for Medicaid. The act provides that families who lose AFDC because of the termination of the earnings disregard will be eligible for 9 months of Medicaid coverage. At State option, an additional 6 months of Medicaid coverage can be provided. In addition, families who lost AFDC eligibility prior to enactment of the work transition will also be eligible for Medicaid under certain specified circumstances.

5. Clarification of earned income provisions.—The act clarifies that the term "earned income" as used in the AFDC program means the gross amount of earnings, prior to the taking of payroll or other deductions.

6. Burial plots, funeral agreements and certain property.—Under prior law, burial plots and funeral agreements were counted toward the $1,000 asset limit. The act exempts from the AFDC resources limitation, burial plots and funeral agreements. An AFDC policy on real property that is similar to SSI policy is also established.

7. Federal matching for Community Work Experience Program (CWEP) expenses.—Under prior law, States were required to reimburse a CWEP participant for necessary transportation and other expenses. Federal matching for this reimbursement was by regulation, limited to $25 per month. The act requires States to reimburse a CWEP participant for costs incurred if the State is unable to provide directly any transportation or day care services. Reimbursement of day care expenses is limited to those determined by the State to be reasonable, necessary and cost effective up to $160 per month per child.

8. Retrospective budgeting and monthly reporting.—Under prior law, monthly reporting and retrospective budgeting were required for all AFDC cases; however, the Secretary of Health and Human Services could waive the monthly reporting requirement if it was not cost effective to require the report. The act mandates retrospective budgeting for cases filing a monthly report. Monthly reporting is required when cost effective; cases with earned income and recent work history must report monthly.

9. Earned income tax credit (EITC).—Under prior law, States were required to assume that an individual was receiving the earned income tax credit on an advance basis regardless of when or if it was received. The act requires States to count the EITC only when actually received.

10. Demonstrations of one-stop service delivery.—The act authorizes from 3 to 5 Federally-assisted demonstration projects designed to test the effectiveness and efficiency of integrating the delivery of human services.

11. Work requirements for pregnant women.—The act adds to those who are exempt from work registration, any woman who is in the third trimester of pregnancy.

12. Recalculation of lump sum income.—Under prior law, States could only recalculate ineligibility due to receipt of lump sum income if a life threatening circumstance occurred. The act allows States to recalculate the ineligibility period under other specified circumstances. Ineligibility may be recalculated if: (1) an event occurs which would have changed the amount of AFDC paid; (2) the income becomes unavailable for reasons beyond the family's control; and/or (3) the family incurs, becomes responsible for and pays medical bills which offset the lump sum income.

13. Overpayment recoupment.—Under prior law, States were required to attempt to recover all benefit overpayments. The act permits States to waive overpayment recovery when it is not cost effective. States will be permitted to automatically waive overpayments of less than $35. Larger overpayments must be collected unless the State determines, after attempting to collect the overpayment, that the cost to collect would exceed the amount owed.

14. Protective payments.—Under prior law, States were required to make protective payments to a third party when a parent on AFDC failed to meet certain statutory procedural requirements. The act permits States to make the payment to the parent if, after all reasonable efforts have been made, a suitable protective payee cannot be found.

15. Eligibility requirements for aliens.—Under prior law the income of an individual who sponsors a non-refugee alien was deemed to be available to the alien for 3 years after entry into the United States. The act establishes a similar policy for aliens who are sponsored by organizations or agencies.

16. Fugitive felons.—The act permits States to disclose the current address of an AFDC recipient if a law enforcement agency provides the correct social security number and demonstrates that the recipient is a fugitive felon.

17. Payment schedule for back claims.—The act establishes a payment schedule for court-ordered reimbursements and certain other back claims owed by the Federal Government to the States that have been allowed or are pending.

18. Work supplementation program.—The act modifies the existing work supplementation program to provide additional flexibility to States in operating grant diversion programs in which all or part of the AFDC grant can be used to subsidize a job.

19. Disregard of in-kind income.—The act extends, until October 1, 1987, the disregard of certain in-kind assistance provided on the basis of need.

20. Standard filing unit/child support payments.—There was no requirement in prior law that parents and all siblings be included in the AFDC unit. The act requires States to include in the filing unit the parents and all minor siblings living with a dependent child who applies for or receives AFDC. In addition, a monthly disregard of $50 of child support received by a family is established.

21. CWEP work for Federal agencies.—The act permits Federal agencies or offices to serve as community work experience program (CWEP) sites under the same requirements as apply to other sites.

22. Earned income of full-time students.—For purposes of applying the gross income limitation, the act allows States to disregard the income of an AFDC child who is a full-time student.

23. Income and eligibility verification procedures.—Under present law, IRS wage information furnished by employers to IRS is available to State welfare agencies for use in their AFDC and food stamp programs, and to the Social Security Administration for administering the SSI program. However, IRS unearned income information (filed by a financial institution or corporation with respect to payments to individuals in the form of interest, dividends, etc.) is not available to Federal and State agencies for use in the administration of these programs. Quarterly wage information from the unemployment compensation program is available to State welfare agencies in most States.

Public Law 98-369 provides for the IRS to disclose return information with respect to unearned income to Federal, State, or local agencies administering AFDC, SSI, Medicaid, food stamps, and the cash assistance programs administered in Puerto Rico, Guam, and the Virgin Islands.

Disclosure can only be made to agencies that meet the requirements to safeguard this confidential information against disclosure, and verification of the unearned income information is required prior to taking action to reduce or terminate benefits.

The provision also replaces existing statutory provisions relating to use (for purposes of AFDC) of return and other wage information and use of social security numbers, by adding a new section to the Social Security Act requiring States to have in effect an income and eligibility verification system for use in administering the AFDC, Medicaid, unemployment compensation, and food stamp programs (and the adult assistance programs in the territories). State agencies must request and make use of: (1) wage and other income information available under the Internal Revenue Code; and (2) quarterly wage information. Each State is required as of September 30, 1988, to maintain a quarterly wage reporting system, although not necessarily through its unemployment compensation system.

The income and eligibility system requires use of standardized data formats to facilitate exchange of information, for the purpose of identifying and reducing ineligibility and incorrect payments.

IMPACT OF 1981 PROGRAM CHANGES

The Omnibus Budget Reconciliation Act of 1981 (OBRA) imposed a gross income limit for AFDC eligibility (150 percent of a State's need standard), capped the deduction for child care costs ($160 monthly per child), set a standard deduction for other work expenses ($75 monthly), and ended the work incentive disregard for working recipients after their first 4 months on a job. These provisions affected AFDC parents with jobs by reducing or ending their benefits. They also had potential effects on welfare mothers without jobs by reducing the gains possible from work, and on nonwelfare mothers with low earnings. Under previous law, a person in the latter group could increase total income by decreasing or ending earnings, enrolling in AFDC, and then resuming work. OBRA also required States to count part of the income of a stepparent as available to an AFDC child.

Former HHS Assistant Secretary Rubin reported in testimony that 408,000 families lost eligibility and 299,000 lost benefits as a result of the OBRA changes. The changes saved the Federal and State governments about $1.1 billion in 1983. This implies an average loss in benefits per family of $1,555 per year.

HHS evaluation of the 1981 AFDC amendments

A study commissioned by the Department of Health and Human Services [6] and prepared by Research Triangle Institute compared a national sample of AFDC families before and after OBRA.

Major findings include:

—Earners in the 1981 sample (after OBRA) were more likely than 1980 earners (before OBRA) to be off the AFDC rolls a year later. The share of September 1981 earners no longer on welfare in October 1982 was 55 percent. Of September 1980 earners, 28 percent no longer were enrolled in the program a year later.

—The rates of return to AFDC after leaving the rolls were "similar" for the two groups.

—For both groups, approximately 18 percent of AFDC recipients who began the base year (1980 or 1981) with earnings no longer had a job at the end of the year and were receiving AFDC. This suggested that a "normal" rate of job loss occurred in both years and that OBRA had not induced a widespread change in behavior.

—Of the September 1981 earners who no longer received an AFDC payment a year later, approximately 87 percent were working. Their average monthly earnings were $704. (Because of a low response rate to the follow-up survey of former AFDC recipients, however, the report said these data "must be interpreted cautiously.")

—The unemployment rate seemed to have relatively little effect on AFDC participation and on earnings of AFDC recipients.

GAO evaluation of the 1981 amendments

At the request of the House Ways and Means Committee, the U.S. General Accounting Office conducted an in-depth evaluation of the effect of the 1981 amendments on individual AFDC families in five cities: Boston, Dallas, Memphis, Milwaukee, and Syracuse. GAO examined case records, analyzed 10 years of HHS program data, and interviewed former working AFDC recipients more than a year after their termination from AFDC due to the 1981 amendments.

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[6] Final report, Evaluation of the 1981 AFDC Amendments, prepared by Research Triangle Institute under task order #1, contract No. 600-82-0095, and submitted to Office of Family Assistance, Social Security Administration, April 15, 1983.

Findings include:

—Once the declines in caseload and outlays stabilized, OBRA had decreased the national AFDC-basic monthly caseload by 493,000 cases and monthly outlays by $93 million. However, because the caseload rose faster than predicted after this point, long-term effects are less certain.

—Working AFDC recipients who lost eligibility due to the OBRA cuts were more likely to be non-white, younger than those who remained on AFDC (28–33) and had been working for their current employer between 1.7 and 3.4 years.

—Recipients who lost AFDC eligibility suffered a substantial loss of income which they could not make up by increased earnings or other means. The average *monthly* income loss for working single parent families who lost AFDC eligibility was $186 in Memphis, $229 in Dallas, $180 in Milwaukee, $151 in Syracuse, and $115 in Boston.

—A large number of families interviewed had fallen below the poverty level after the OBRA changes were implemented. This ranged from a high of 85.5 percent of families below poverty in Memphis to a low of 28 percent of the Milwaukee families interviewed in poverty.

—Lack of health coverage was common among these former AFDC recipients. In Dallas, 59.2 percent of those families who lost AFDC did not have any health coverage. In Memphis, 45 percent, in Boston 27.5 percent, in Syracuse, 17.1 percent and in Milwaukee, 13.9 percent had no health coverage at all. Private health insurance coverage was more common in high AFDC benefit States.

—Families terminated from AFDC were more likely to face increased emergency situations. In several sites, significantly more families had to forgo medical treatment or were refused medical and/or dental treatment because they could not pay. It was also more common for these families to run out of food before the end of the month, have to seek food from a church or charity group, or need to borrow $50 or more from friends or relatives to meet expenses. In all but one site, those terminated from AFDC said they are eating worse now than before.

BUDGETARY ESTIMATES OF 1981–84 LEGISLATIVE CHANGES IN THE AFDC PROGRAM

The 97th Congress made several changes in AFDC, most of which were estimated to reduce outlays in the program. The 98th Congress also amended AFDC, reversing some of the 1981 cuts. Below is a list of major provisions and the Federal outlay changes attributed to them by the Congressional Budget Office (CBO).

TABLE 42.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES

[Millions of dollars by fiscal year]

	1982	1983	1984	1985	1986	1987
1981 CHANGES (PUBLIC LAW 97–35)						
Limit and standardize earnings disregards	−345	−315	−325	−330	−330	NA
Change determination of resources	−16	−17	−17	−17	−17	NA
Permit offset for food stamps and housing subsidies	(1)	(1)	(1)	(1)	(1)	NA
Permit community work experience programs	NA	NA	NA	NA	NA	NA
Treat lump-sum payments as income	−5	−5	−5	−5	−5	NA
Count some income of stepparents living with dependent child	−154	−145	−136	−127	−118	NA
Exclude family of a striker from eligibility	−5	−5	−5	−5	−5	NA
Lower age limit of dependent child	−50	−52	−54	−56	−57	NA
Limit AFDC for pregnant women	−20	−21	−21	−23	−23	NA
Recover overpayments/pay underpayments	NA	NA	NA	NA	NA	NA
Reduce Federal matching for training	−16	−17	−18	−20	−20	NA
Require retrospective accounting and monthly reporting	(1)	−35	−65	−65	−65	NA
Eligibility of aliens for AFDC	−15	−15	−15	−15	−15	NA
Administrative savings	−11	−14	−18	−22	−26	NA
Total—AFDC [2]	−637	−641	−679	−685	−681	NA
1982 CHANGES (PUBLIC LAW 97–248)						
Round benefits down		−9	−10	−10	−10	−10
Prorate benefits to application date		−13	−14	−14	−14	−14
End military service absence as eligibility grounds		−15	−17	−17	−17	−18
Permit State job search			NA	NA	NA	NA
Permit proration of shelter and utilities		(1)	(1)	(1)	(1)	(1)
Change error rate sanctions		0	0	−62	−63	−63
Exclude certain State payments from countable income		0	0	0	0	0
Extend WIN demonstration		0	0	0	0	0
Exclude State payments to children		0	0	0	0	0
Technical amendments		+1	0	0	0	0
Exclude home energy assistance		+1	+2	+2	0	0
Total AFDC provisions [2]		−35	−39	−101	−104	−105
Food stamp impact of AFDC provisions [2]		+16	+18	+18	+18	+19

TABLE 42.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES—Continued

[Millions of dollars by fiscal year]

	1982	1983	1984	1985	1986	1987
1984 CHANGES (PUBLIC LAW 98–369)						
185 percent gross income limit				5	10	10
Raise part-time work expense deduction				20	20	20
Continue $30 for 12 months				10	10	10
Work transition Medicaid						
Optional MRRB				(1)	(1)	(1)
Count EITC only when received				8	3	3
Exempt burial plots				3	3	3
Reimburse CWEP expenses				5	5	5
Integrated service delivery					2	2
Clarify earned income definition			−5	−24	−24	−24
Standard filing unit				−135	−140	−145
$50 child support disregard [3]				115	115	115
Income verification				(1)	−30	−20
Total AFDC provisions			−5	7	−26	−21
Medicaid impact of AFDC provisions				145	175	195
Food stamp impact of AFDC provisions				−19	−21	−21
Net impact			−5	133	128	153

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[1] Savings or costs of less than $5 million annually.

[2] Does not include any resulting impact on the Medicaid and food stamp program.

[3] Includes the change made to Public Law 98–378 relating to calculation of the incentive payment to States.

NA—Not available.

Section 8. Child Support Enforcement Program

BACKGROUND

The enactment of the Child Support Enforcement (CSE) program in 1975 represented a major new commitment on the part of the Congress to address the problem of nonsupport of children. Although prior to that time the Social Security Act had included provisions which were aimed at improving the collection of support on behalf of children with absent parents, these provisions had not proved to be effective. The 1975 amendments were aimed at strengthening in a very significant way the efforts of the Federal and State governments to improve the enforcement of child support obligations.

The 1975 legislation (Public Law 93–647) added a new part D to title IV of the Social Security Act. The statute, as amended, authorizes Federal matching funds to be used for enforcing the support obligations owed by noncustodial parents to their children and the spouse (or former spouse) with whom the children are living, locating absent parents, establishing paternity, and obtaining child and spousal support. Basic responsibility for administering the program is left to the States, but the Federal Government also plays a major role in funding, monitoring and evaluating State programs, providing technical assistance, and in certain instances, in giving direct assistance to the States in locating absent parents and obtaining support payments from them. The program requires the provision of child support enforcement services for both welfare and nonwelfare families and requires States to publicize frequently, through public service announcements, the availability of child support enforcement services, together with information about the application fee and a telephone number or address to be used to obtain additional information.

THE PROCESS OF CHILD SUPPORT ENFORCEMENT

Local family and domestic courts and administrative agencies handle child support enforcement problems according to Federal, State, and local laws. Working with the parents and considering the best interests of the children, the courts decide which parent will have custody of the children, the amount of the child support obligation of the noncustodial parent, the rights of access to the children of the noncustodial parent, and how the support obligation will be enforced.

The child support enforcement program provides services aimed at locating absent parents, establishing paternity, establishing a support obligation, and enforcing the support obligation. The child support enforcement program does not provide services aimed at other issues between parents, such as property settlement, custody, and access to the children. These issues are handled by local courts with the help of private attorneys.

Any parent who needs help in locating an absent parent, establishing paternity, establishing a support obligation, or enforcing a support obligation may apply for services. Parents receiving benefits under the Aid to Families with Dependent Children (AFDC) program, the federally assisted foster care program or the Medicaid program automatically receive services. Services are free to such recipients, but others are charged up to $25 for services. States can charge fees on a sliding scale, pay the fee out of State funds or recover the fees from the noncustodial parent.

When a parent applies for child support enforcement services, the following information aids the process: the name and address of the noncustodial parent; the absent parent's Social Security number; children's birth certificates; the child support order; the divorce decree or separation agreement; the name and address of the most recent employer of the noncustodial parent; the names of friends and relatives or organizations to which the noncustodial parent might belong; information about income and assets; and any other information about absent parents that might help the locating process. Once this information is provided, it is used in strictest confidence.

If the child support enforcement program cannot locate the noncustodial parent with the information provided by the custodial parent, it must try to locate the noncustodial parent through the State parent locator service. The State uses various information such as telephone directories, motor vehicle registries, tax files, and employment data. The State also can ask the Federal Parent Locator Service (FPLS) to locate the noncustodial parent. The FPLS can access data from the Social Security Administration, the Internal Revenue Service, the Selective Service System, the Department of Defense, the Veterans Administration, and the National Personnel Records Center.

Under the Family Support Act of 1988 (P.L. 100–485), States are required to initiate the establishment of paternity for all children under the age of 18, including those for whom an action to establish paternity was previously dismissed because of the existence of a statute of limitations of less than 18 years. The act also establishes paternity establishment standards for the States, and encourages them to establish simple civil procedures for establishing paternity in contested cases. All parties to a contested case may be required to submit to genetic testing. The Federal Government pays 90 percent of the laboratory costs, and States may charge persons not receiving AFDC for the cost of establishing paternity.

Under the Family Support Act of 1988, a State must use its child support award guidelines in establishing the child support obligation of the noncustodial parent. Also, the State must review and adjust individual awards every 3 years under certain circumstances beginning October 13, 1993.

Local courts and child support enforcement agencies attempt to collect child support when the noncustodial parent does not pay. If the arrearage sums to 30 days or more worth of support, the State must impose wage withholding on the noncustodial parent. The Family Support Act expands this authority so that wage withholding will eventually apply to nearly all cases. Other techniques for enforcing support include regular billings, delinquency notices, liens on property, seizure and sale of property, reporting arrearages to credit agencies, garnishment of wages, and offsetting of State and Federal income taxes.

States might bring charges of criminal nonsupport against noncustodial parents if they cannot collect, or they might use civil or criminal contempt-of-court charges. These court proceedings usually involve much time related to court backlogs, delays, and continuances. Once a court decides the case, noncustodial parents often have been given probation or suspended sentences, and lower support payments and only partial payment of arrearages. To combat problems associated with court delays, the statute requires States to implement expedited processes under the State judicial system or State administrative processes for obtaining and enforcing support orders and at State option for establishing paternity.

The most difficult child support orders to enforce are the interstate cases. States are required to cooperate in interstate child support enforcement, but problems arise from the additional autonomy of the local courts. Family law has been under the jurisdiction of State and local governments, and citizens fall under the jurisdiction of the courts where they live.

If the noncustodial parent lives out of State, the primary tool for interstate enforcement is the Uniform Reciprocal Enforcement of Support Act (URESA). All States have their own URESA laws. Under these laws, the child support enforcement official or private attorney files a two-State petition with the enforcement agency or a court in another State. Where the URESA provisions in the two States are compatible, the law can be used effectively. However, many of these laws are out of date and incompatible, which makes interstate child support enforcement relatively ineffective.

The National Conference of Commissioners on Uniform State Laws originally drafted a model URESA in 1950. Since then, amendments have been made in 1952, 1958, and 1968. The Family Support Act of 1988 authorizes a commission on problems in interstate child support enforcement. It is required to report to Congress by May 1, 1991.

SERVICES FOR AFDC AND NON-AFDC CASES

Each State's child support plan must provide that the child support agency will undertake to secure support for an AFDC child whose rights to support have been assigned to the State. This includes nearly all AFDC children, since assignment of rights to support is a condition of eligibility for AFDC benefits. The State must also provide in its plan that it will undertake to establish the paternity of an AFDC child who is born out of wedlock. These requirements apply in all cases except where, in accordance with standards established by the Secretary, the State finds that to apply them would be against the best interests of the child. For families whose AFDC eligibility ends due to the receipt of (or an increase in) child support, States must continue to provide child support enforcement services, without imposing the application fee. This policy was established by Public Law 98-378.

With respect to non-AFDC families, the law provides that the State must make available, once an application is filed with the State agency, the child support collection and paternity determination services which are provided under the plan for AFDC families. The State must charge non-AFDC families an application fee of up to $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary of the Department of Health and Human Services to reflect changes in administrative costs. States may charge the fee against the custodial parent, pay the fee out of State funds, or recover it from the noncustodial parent.

States also have the option of charging a late payment fee equal to between 3 and 6 percent of the amount of overdue support. Late payment fees may be charged to the noncustodial parents of AFDC and non-AFDC families and are to be collected only after the full amount of the support has been paid to the child. In addition, a State may at its option recover costs in excess of the application fee. Such recovery may be from either the custodial parent or the noncustodial parent. If a State chooses to make recovery from the custodial parent, it must have in effect a procedure whereby all persons in the State who have authority to order support are informed that such costs are to be collected from the custodial parent.

Finally, child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

THE FEDERAL ROLE

The Federal statute provides that the child support program must be administered by a separate organizational unit under the control of a person designated by and reporting directly to the Secretary of Health and Human Services (HHS). Under the present organizational structure of the Department, this office is known as the Federal Office of Child Support Enforcement (OCSE). The Family Support Act of 1988 requires the appointment of an Assistant Secretary for Family Support within HHS to administer a number of programs, including the Child Support Enforcement program under title IV–D of the act.

A primary responsibility of the director is to establish such standards for State programs for locating absent parents, establishing paternity, and obtaining child support and support for the spouse (or former spouse) with whom the absent parent's child is living as he determines to be necessary to assure that the programs will be effective. In addition to this broad statutory mandate, the director is required to establish minimum organizational and staffing requirements for State child support agencies, and to review and approve State plans.

The statute also requires the director of the OCSE to provide technical assistance to the States to help them establish effective systems for collecting child and spousal support and establishing paternity. To fulfill this requirement, the OCSE has established a National Child Support Enforcement Reference Center as a central location for the collection and dissemination of information about State and local programs. It operates, under a contract, the National Institute for Child Support Enforcement, to provide training and technical assistance to persons working in the field of child support enforcement. Special initiatives, such as a recent effort to assist major urban areas in improving program performance, have also been undertaken by the OCSE.

The Child Support Enforcement Amendments of 1984 (Public Law 98-378) extend the research and demonstration authority in section 1115 of the Social Security Act to the child support enforcement program. This will make it possible for States to test innovative approaches to support enforcement so long as the modification would not disadvantage children in need of support nor result in an increase in Federal AFDC costs. Public Law 98-378 also authorizes special project grants to promote improvement in interstate enforcement. The authorization is $15 million for each fiscal year after 1986.

The director of the OCSE has full responsibility for program evaluation. Prior to fiscal year 1984 the statute required him to conduct an annual audit of each State's program to determine whether the actual operation of the program conformed to Federal requirements. The penalty for noncompliance was a reduction of 5 percent in the Federal matching that would otherwise be payable to the State under the Aid to Families With Dependent Children (AFDC) program. This penalty was never imposed; legislation was periodically enacted to suspend its implementation.

Public Law 98-378 modified these audit and penalty requirements. Audits are now required at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and subsequent failures.

FEDERAL ENFORCEMENT TOOLS

The statute creates several Federal mechanisms to assist the States in performing their paternity and child support enforcement functions. These include use of the Internal Revenue Service, the Federal courts, and the Federal Parent Locator Service (FPLS).

The statute requires the Secretary of HHS, upon the request of a State, to certify to the Secretary of Treasury for collection by the IRS any amounts identified by the State as representing delinquent child support payments. The Secretary may certify only the amounts delinquent under a court or administrative order, and only upon a showing by the State that it has made diligent and reasonable efforts to collect amounts due using its own collection mechanisms. States must reimburse the Federal Government for any costs involved in making the collections. Collections may be made on behalf of both AFDC and non-AFDC families. Use by the States of this regular IRS collection mechanism (which may include seizure by the IRS of property, freezing of accounts, and other procedures) has been relatively infrequent. In fiscal year 1987, collections were made in only 621 cases nationwide, for a total collection of $464,035.

The availability of the IRS collection mechanism for child support was amplified in amendments enacted as part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) to allow the collection of past due support from Federal tax refunds upon a simple showing by the State agency that an individual owes at least $150 in past-due support which has been assigned to the State as a condition of AFDC eligibility. Upon receiving this showing, the Secretary of Treasury is required to withhold from any tax refunds due that individual an amount equal to any past-due support. The withheld amount is sent to the State agency, together with notice of the taxpayer's current address.

Public Law 98-378 created a similar IRS offset program for non-AFDC families owed child support. States must submit to the IRS for withholding, the names of absent parents who have arrearages of at least $500 and who, on the basis of current payment patterns and the enforcement efforts that have been made, are unlikely to pay the arrearage before the IRS offset can occur. The law establishes specific notice requirements and mandates that the absent parent and any spouse be informed of the procedures which may be taken to protect the unobligated spouse's portion of the refund. The provision applies to refunds payable after December 31, 1985, and before January 1, 1991.

In 1988, a total of 737,520 cases were offset, which resulted in child support collections of $423 million. About 91 percent of the offset cases and 79 percent of the child support collections were for AFDC recipients. The remainder was for non-AFDC cases.

States also may have access to the Federal courts to enforce court orders for support. The director of the Office of Child Support Enforcement must approve a State's application for permission to use the courts of the United States to enforce court orders for support upon a finding that: (1) another State has not undertaken to enforce the court order of the originating State against an absent parent within a reasonable time; and (2) that use of the Federal courts is the only reasonable method of enforcing such order. This mechanism, designed to assist the States in enforcing interstate cases, has gone unused, apparently because the States view it as costly and complex.

Finally, the statute also requires the establishment of a Federal Parent Locator Service to be used to find absent parents in order to enforce child support obligations. Upon request, the Secretary of HHS must provide to an authorized person the most recent address and place of employment of any absent parent if the information is contained in the records of the Department of Health and Human Services, or can be obtained from any other department or agency of the United States or of any State. The Secretary must also make available the services of the PLS to any State that wishes to locate an absent parent or child for the purpose of enforcing any Federal or State law with respect to the unlawful taking or restraint of a child, or making or enforcing a child custody determination.

THE STATE ROLE

Each State is required to designate a single and separate organizational unit of State government to administer the program. Earlier child support legislation, enacted in 1967, had required that the program be administered by the welfare agency. The 1975 act deleted this requirement in order to give each State the opportunity to select the most effective administrative mechanism. Most States have placed the child support agency within the social or human services umbrella agency which also administers the AFDC program. However, two States have placed the agency in the department of revenue. The law allows the programs to be administered either on the State or local level. Ten programs are locally administered. A few programs are State administered in some counties and locally administered in others.

States must have plans, approved by the director of the OCSE, which set forth their functions and responsibilities. Both AFDC and non-AFDC families must be served. States must also enter into cooperative arrangements with appropriate courts and law enforcement officials to assist the child support agency in administering the program. These agreements may include provision for reimbursing courts and law enforcement officials for their assistance. States must operate a parent locator service to locate absent parents, and they must maintain full records of collections and disbursements, and otherwise maintain an adequate reporting system.

In order to facilitate the collection of support in interstate cases, a State must cooperate with other States in establishing paternity, locating absent parents, and in securing compliance with an order issued by another State.

The law requires the States to use several enforcement tools. They must use the IRS tax refund offset procedure for AFDC and non-AFDC families, and they must also determine periodically whether any individuals receiving unemployment compensation owe child support obligations. The State employment security agency is required to withhold unemployment benefits, and to pay the child support agency any outstanding child support obligations established by an agreement with the individual or through legal processes.

Public Law 98–378 mandated that States use a number of other enforcement techniques, beginning on October 1, 1985. These include: (1) mandatory wage withholding if support payments are delinquent in an amount equal to one month's support; (2) imposing liens against real and personal property for amounts of overdue support; (3) withholding of State tax refunds payable to a parent who is delinquent in support payments; (4) making available information regarding the amount of overdue support owed to a consumer credit bureau upon a request; (5) requiring individuals who have demonstrated a pattern of delinquent payments to post a bond or give some other guarantee to secure payment of overdue support; (6) establishing expedited processes within the State judicial system or under administrative processes for obtaining and enforcing child support orders, and, at the option of the State, determining paternity; (7) notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient; (8) permitting the establishment of paternity until a child's 18th birthday; and (9) at the option of the State, providing for cases not enforced by the State CSE agency, that child support payments must be made through the agency that administers the State's income withholding system if either the custodial or noncustodial parent requests that they be made in this manner.

State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV–E of the Social Security Act, if an assignment of rights to support has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments.

State agencies are also required, as a result of Public Law 98–378, to petition to include medical support as part of any child support order whenever health care coverage is available to the noncustodial parent at a reasonable cost. And, if a family loses AFDC eligibility as the result of increased collection of support payments, the State must continue to provide Medicaid benefits for 4 calendar months beginning with the month of ineligibility. States also must provide services to medically needy (Medicaid only) families referred to the State IV–D agency from the State Medicaid agency.

Finally, the statute requires each State to comply with any other requirements and standards that the Secretary determines to be necessary to the establishment of an effective child support program.

FEDERAL GARNISHMENT AND MILITARY ALLOTMENT PROVISIONS

Title IV–D of the Social Security Act also includes a provision allowing garnishment of wages and other payments made by the Federal Government for enforcement of child support and alimony obligations. The statute provides that moneys (the entitlement to which is based upon remuneration for employment) payable by the United States to any individual are subject to legal process brought for the enforcement against such individual of his legal obligation to provide child support or make alimony payments. The law sets forth in detail the procedures which must be followed for service of legal process, and specifies that the term "based upon remuneration for employment" includes wages, periodic benefits for the payment of pensions, retirement or retired pay (including social security and other retirement benefits), and other kinds of Federal payments. The following Federal income sources may not be garnished: any payment as compensation for death under any Federal program; Federal "black lung" benefits; Veterans' Administration pensions or payments as compensation for a service-related disability or death; and amounts paid to defray employment-related expenses.

As amended by Public Law 97–248, the law presently requires allotments from the pay and allowances of any member of the uniformed service (on active duty) when he fails to make child (or child and spousal) support payments. The requirement arises when the service member fails to make support payments in an amount at least equal to the value of 2 months' worth of support. Provisions of the Consumer Credit Protection Act apply so that the percentage of the member's pay which is subject to allotment is limited. The amount of the allotment is the amount of the support payment, as established under a legally enforceable administrative or judicial order.

FINANCING

Through fiscal year 1987, the Federal Government paid 70 percent of State and local administrative costs for services to both AFDC and non-AFDC families on an open-end entitlement basis. The matching rate was reduced from 75 to 70 percent by a provision in Public Law 97-248. Under the terms of Public Law 98-378, the matching rate declines to 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter. Funding for services to non-AFDC families was originally enacted on a temporary basis, but was made permanent in Public Law 96-272.

In addition, 90 percent Federal matching is available until October 1, 1995, on an open-end entitlement basis to States that establish automated data processing and information retrieval systems. The Secretary must approve the system as meeting specified criteria before matching may be paid to the State. The matching rate was increased from 75 to 90 percent in Public Law 96-265. Public Law 98-378 permits States to use this 90 percent Federal match to establish an automated data processing and information retrieval system and, at the option of the State, for the development and improvement of the income withholding and other procedures required by the new law. These matching funds may also be used to pay for the acquisition of computer hardware.

Effective March 1, 1986, the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) reduced the fiscal year 1986 administrative match from 70 percent to 66.65 percent and the computer match from 90 percent to 85.69 percent. These reductions applied to fiscal year 1986 only, and returned to the statutorily set rates on October 1, 1986.

Collections made on behalf of AFDC families are used to offset the cost to the Federal and State governments of welfare payments made to the family, except that AFDC families retain the first $50 of child support collected in a month. (Table 1 shows the number of families affected by this provision.) The amounts retained by the government are distributed between the Federal and State governments according to the proportional matching share which each has under a State's AFDC program.

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985, 1986, 1987, AND 1988 [1]

States	AFDC (IVA) families 1988	Estimated families affected 1988	Percent of families affected			
			1985	1986	1987	1988
Alabama	45,664	9,283	11.7	18.0	18.5	20.3
Alaska	7,404	1,181	11.9	11.5	14.2	16.0
Arizona	30,594	1,409	4.8	4.5	4.2	4.6
Arkansas	22,789	5,413	15.9	17.3	20.4	23.8
California	583,003	66,469	13.8	11.0	10.1	11.4
Colorado	31,988	4,521	14.1	14.1	14.0	14.1
Connecticut	37,401	8,504	25.6	27.6	32.6	22.7
Delaware	7,652	1,306	21.7	25.2	24.3	17.1
District of Columbia	18,957	1,526	5.8	1.8	7.2	8.1
Florida	109,419	22,612	11.4	15.1	14.8	20.7
Georgia	85,347	12,625	5.3	10.4	11.7	14.8
Guam	1,381	137	10.5	12.0	9.7	9.9
Hawaii	13,305	2,349	20.5	10.7	15.1	17.7
Idaho	6,443	2,182	46.7	32.7	29.8	33.9
Illinois	224,457	13,275	5.5	10.8	8.7	5.9
Indiana	52,720	18,865	25.9	14.3	22.5	35.8
Iowa	38,010	7,704	22.7	21.6	19.4	20.3
Kansas	23,810	4,733	15.2	17.3	17.5	19.9
Kentucky	58,215	6,660	7.6	8.1	9.5	11.4
Louisiana	89,992	7,145	6.9	7.3	7.7	7.9
Maine	18,164	6,242	25.6	26.9	29.3	34.4
Maryland	64,944	5,181	15.0	19.5	13.5	8.0
Massachusetts	87,873	17,023	20.2	20.0	19.6	19.4
Michigan	210,948	31,737	17.2	25.3	31.7	15.1
Minnesota	53,924	12,586	22.5	27.0	20.1	23.3
Mississippi	58,854	3,606	4.8	4.9	5.7	6.1
Missouri	66,773	9,359	8.2	9.8	10.1	14.0
Montana	9,272	1,030	13.9	15.4	10.7	11.1
Nebraska	14,804	2,212	11.3	15.3	15.4	14.9
Nevada	5,805	2,281	33.6	36.4	35.4	39.3
New Hampshire	4,150	773	12.6	17.7	18.7	18.6
New Jersey	109,875	18,115	15.4	15.4	15.9	16.5
New Mexico	21,086	2,083	7.6	11.6	7.4	9.9
New York	343,035	34,281	9.2	9.5	10.8	10.0
North Carolina	66,222	15,065	15.0	43.3	18.0	22.8
North Dakota	5,137	1,593	25.1	25.5	26.7	31.0
Ohio	224,501	26,022	11.6	14.4	11.8	11.6
Oklahoma	34,630	3,941	8.4	9.9	10.2	11.4

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985, 1986, 1987, AND 1988 [1]—Continued

States	AFDC (IVA) families 1988	Estimated families affected 1988	Percent of families affected			
			1985	1986	1987	1988
Oregon	29,354	5,951	16.0	19.3	19.6	20.3
Pennsylvania	180,552	34,948	16.3	19.8	18.8	19.4
Puerto Rico	53,883	2,431	4.7	4.0	4.4	4.5
Rhode Island	15,156	2,855	13.9	14.0	17.7	18.8
South Carolina	43,075	9,591	8.9	8.8	16.1	22.3
South Dakota	6,473	2,146	17.6	33.8	27.7	33.2
Tennessee	66,492	7,231	9.8	10.0	9.7	10.9
Texas	165,578	9,148	3.1	4.5	4.3	5.5
Utah	15,051	3,795	26.9	25.8	25.4	25.2
Vermont	7,158	1,950	21.9	26.4	25.8	27.2
Virgin Islands	1,030	179	10.2	NA	14.4	17.4
Virginia	54,547	9,639	14.9	17.0	16.9	17.7
Washington	74,290	16,470	18.0	25.3	18.9	22.2
West Virginia	37,282	1,538	6.6	7.7	4.2	4.1
Wisconsin	91,044	28,983	37.8	23.3	23.5	31.8
Wyoming	4,975	677	8.0	11.1	10.4	13.6
Total	3,734,488	528,560	13.2	14.6	14.1	14.2

NA=Not available.

[1] These estimates are based on the number of "paying" child support cases and are a low estimate of the number of families affected.

Note: These estimates are based on the number of "paying" child support cases adjusted for comparability with AFDC families.

Source: Office of Child Support Enforcement.

Finally, the statute includes an incentive system designed to encourage State and local governments to participate in the program. As a result of Public Law 98–378, the prior incentive formula, which gave States 12 percent of their AFDC collections (paid out of the Federal share of collections), has been replaced, beginning on October 1, 1985, with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment is equal to 6 percent of the State's AFDC collections and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, based on the percent that their AFDC or non-AFDC collections exceed total administrative costs for the program.

The total dollar amount of incentives paid for non-AFDC families could not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, after 1987 the incentive paid for non-AFDC collections is capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and thereafter.

DEMOGRAPHIC TRENDS

A sizable and growing proportion of American households are families that consist only of a mother and her children. Between 1970 and 1987, the number of female-headed families with children under 18 has increased by 120 percent; the number of such two-parent families has declined 3 percent. As a result, by 1988 nearly one out of every four children under 18 in the United States lived in a family where the mother was never married or the father was absent because of death, divorce, or separation. An unprecedented number of children live in single-parent homes, many without adequate or any support from the other parent.

In 1986, 46 percent of families maintained solely by the mother, with children under 18, had incomes below the poverty threshold. Further, 20 percent of these families with a female householder (with no husband present) were poor despite full-time work of the mother.

In 1988, more than 15 million children (under 18) lived with only one parent, 87 percent more than in 1970. Even though the total number of children under 18 years old in the United States declined from 69 million in 1970 to 61.3 million in 1988, the number of children affected by divorce, separation, and unmarried status of mother continued to rise. Twenty-five percent of all children lived in a one-parent family in 1988, compared with 12 percent in 1970. The 1981 National Survey of Children indicates that roughly 10 percent of the children living with two parents were living with a stepparent.

Of the 15 million children living with one parent, 88 percent lived with their mothers and 12 percent with their fathers. Between 1970 and 1988 the number of children living with only their fathers grew by 142 percent (from 748,000 to 1,808,000). The proportion of all children in one-parent families who lived with their fathers rose from 1.1 percent to 3.0 percent.

The largest number of children in one-parent families had a parent who was divorced, followed by children whose parents were never married or separated. In 1988, of the children who lived only with one parent, 38 percent had a parent who was divorced, 25 percent had a parent who was separated, and 30 percent had a parent who had never been married. The number of children with a divorced parent has more than doubled since 1970, but the number with a never-married parent grew by a multiple of 8.

Child support awards

In 1985, of the 8.8 million women who had children present under the age of 21 from an absent father, 39 percent never were awarded child support rights (nor had an agreement to receive child support payments) and, thus, were dependent for income on sources other than the father. For poor mothers, the proportion without child support awards was even higher, 60 percent (see table 3).

TABLE 2.—CHILD SUPPORT AND ALIMONY PAYMENTS IN 1978, 1983, AND 1985

[Women as of spring 1979, 1984, and 1986. Child support payments for women with own children under 21 years of age present from an absent father: alimony payment for ever-divorced women]

Year, award and recipiency status of women	1978		1983		1985	
	Number (thousands)	Percent distribution	Number (thousands)	Percent distribution	Number (thousands)	Percent distribution
Child Support Payments						
Total	7,094	100.0	8,690	100.0	8,808	100.0
Awarded [1]	4,196	59.1	5,015	57.7	5,396	61.3
Supposed to receive payments	3,424	48.3	3,995	46.0	4,381	49.7
Not supposed to receive payments	772	10.9	1,020	11.7	1,015	11.5
Not awarded [1]	2,898	40.9	3,675	42.3	3,411	38.7
Supposed to receive payments	3,424	100.0	3,995	100.0	4,381	100.0
Actually received payments	2,455	71.6	3,037	76.0	3,243	74.0
Received full amount	1,675	48.9	2,018	50.5	2,112	48.2
Received partial amount	779	22.7	1,019	25.5	1,131	25.8
Did not receive payments	969	28.4	958	24.0	1,138	26.0
Alimony						
Total	14,334	100.0	17,392	100.0	19,156	100.0
Awarded [1]	2,052	14.3	2,416	13.9	2,803	14.6
Supposed to receive payments	760	5.3	791	4.5	840	4.4
Not supposed to receive payments	1,292	9.0	1,625	9.3	1,963	10.2
Not awarded [1]	12,282	85.7	14,976	86.1	16,354	85.4
Supposed to receive payments	760	100.0	791	100.0	840	100.0
Actually received payments	528	69.5	608	76.9	616	73.3
Received full amount	312	41.1	NA	NA	NA	NA
Received partial amount	216	28.4	NA	NA	NA	NA
Did not receive payments	232	30.5	183	23.1	225	26.8

[1] Award status as of spring 1979, 1984, and 1986.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–23, No. 112 Child Support and Alimony 1978, No. 141 Child Support and Alimony 1983 (advance report) and No. 152. Child Support and Alimony 1985 (advance report). Washington U.S. Government Printing Office, 1987.

Approximately 5.4 million women with children under age 21 (61 percent) had been awarded child support or had an agreement to receive child support payments, but only 4.4 million (50 percent) of the women were actually "supposed to receive" child support in 1985. The rights of the remaining 11 percent were no longer in force because the father who owed payments had died, the children had grown past the age of eligibility for payments, or because of another such reason.

Many of the women who were awarded child support payments did not receive the full amount they were due. In 1985, less than half (48 percent) of the 4.4 million women owed child support payments received the full amount, about 26 percent of the women received less than they were owed, and 26 percent received no payment at all. The average amount of child support for women who *received* payments in 1985 was $2,215, about 15 percent of their average total income. In 1978, the average amount of child support was $1,800, about 20 percent of the woman's income.

In 1985, the average amount of child support for the 4.4 million women *due* payments, including those who received nothing, was $1,640. If the full amount of payment due had been made to these women, the average child support amount would have been $2,500. In 1985, $10.9 billion in child support payments was due, but actual payments totaled only $7.2 billion.

TABLE 3.—CHILD SUPPORT PAYMENTS AWARDED AND RECEIVED IN 1985—WOMEN WITH CHILDREN PRESENT, BY SELECTED CHARACTERISTICS

[Women with own children under 21 years of age present from an absent father as of spring 1986]

Characteristics of women	Total (thousands)	Percent awarded child support payments [1]	Supposed to receive child support in 1985			
			Total (thousands)	Actually received support in 1985		
				Percent	Mean child support	Mean income
			ALL WOMEN			
Total	8,808	61.3	4,381	74.0	$2,215	$14,776
Current Marital Status						
Married [2]	2,322	82.0	1,416	68.5	1,966	13,512
Divorced	3,045	81.8	2,179	75.1	2,538	16,778
Separated	1,363	43.1	453	84.3	2,082	12,642
Widowed [3]	69	(B)	30	(B)	(B)	(B)
Never married	2,009	18.4	303	76.2	1,147	9,675
Race and Spanish Origin						
White	6,341	70.6	3,651	74.6	2,294	15,052
Black	2,310	36.3	657	72.0	1,754	13,297
Spanish origin [4]	813	42.1	282	68.1	2,011	11,505
Years of School Completed						
Less than 12 years	2,230	45.2	750	67.1	1,835	9,144
High school: 4 years	4,176	63.3	2,152	74.3	2,040	13,577
College:						
1 to 3 years	1,653	70.7	1,003	74.6	2,447	17,014
4 years or more	748	76.6	476	82.1	2,978	22,639
			WOMEN WITH INCOMES BELOW POVERTY			
Total	2,797	40.4	905	65.7	1,383	5,130
Current Marital Status						
Married [2]	180	67.2	81	61.7	(B)	(B)

TABLE 3.—CHILD SUPPORT PAYMENTS AWARDED AND RECEIVED IN 1985—WOMEN WITH CHILDREN PRESENT, BY SELECTED CHARACTERISTICS—Continued

[Women with own children under 21 years of age present from an absent father as of spring 1986]

Characteristics of women	Total (thousands)	Percent awarded child support payments[1]	Supposed to receive child support in 1985			
			Total (thousands)	Actually received support in 1985		
				Percent	Mean child support	Mean income
Divorced	795	71.9	499	60.3	1,522	5,295
Separated	646	3[illegible].2	158	73.4	1,503	4,994
Widowed	18	[illegible]3)	4	(B)	(B)	(B)
Never Married[3]	1,159	[illegible]9	163	75.5	900	5,450
Race						
White	1,569	5[illegible].2	631	65.1	1,463	5,005
Black	1,190	27.1	257	67.7	1,085	5,403
Spanish origin[4]	414	24.2	74	(B)	(B)	(B)

[1] Award status as of spring 1986.

[2] Remarried women whose previous marriage ended in divorce.

[3] Widowed women whose previous marriage ended in divorce.

[4] Persons of Spanish origin may be of any race.

Note.—B base less than 75,000.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–23, No. 152. Child Support and Alimony: 1985 (Advance Report). U.S. Government Printing Office, Washington, 1987.

Of the 8.8 million women with children by an absent father, about 2.8 million (32 percent) had incomes below the poverty level. Of these women, only 32 percent (905,000) had agreements to receive child support and were due payments in 1985. Another 11.5 percent had agreements but were not due payments in 1985 (see table 3).

Of the poor mothers who were supposed to receive child support payments in 1985, 65.7 percent (595,000) actually received payments, while 34.3 percent did not.

For women who actually received child support payments in 1985, the amount of payment tended to be higher than average for divorced women, white women, women over age 30, and women who had gone to college for at least a year. Those with lower than average payment amounts included never-married women, black women, women of Spanish origin, and women who had not completed 12 years of school (see table 3).

Only 18 percent of women who had never married were awarded child support payments; compared with nearly 82 percent of divorced women, 82 percent of remarried women and 43 percent of women who were separated. Among women with awards, the percentages of those who actually received payments were: 62 percent of never-married mothers, 51 percent of remarried mothers, 65 percent of separated mothers, and 66 percent of divorced mothers.

Of the 3 million women who actually received child support payments in 1985, 50 percent were divorced, 30 percent were remarried, 12 percent were separated, and 7 percent were single (never married). The women who had never married received, on the average, the lowest amount of child support payments. Among women who were poor despite having been awarded child support, these percentages were lower. Payments actually were received by 59 percent of such never-married mothers, 41 percent of remarried mothers, 53 percent of separated mothers, and 53 percent of divorced mothers.

Black mothers and mothers of Spanish origin living apart from the father of their children were much less likely than their white counterparts to be awarded child support. Almost 71 percent of white mothers were awarded child support payments, compared with 36 percent of black mothers, and 42 percent of mothers of Spanish origin. Further, both black and Spanish-origin mothers received smaller payments, on the average, than did white mothers.

Mothers who were not high school graduates were less likely than the average to be awarded child support, and their support payments were on the average much smaller than those of mothers who had completed more than 12 years of school.

In addition, the age of the woman was related to the awarding of child support payments. Women between the ages of 30 and 39 were the most likely to be awarded child support. However, women 40 years of age and older were the most likely to actually receive payments and received, on average, higher support payments. Women under age 30 were the least likely to be awarded payments, and those who were awarded support received smaller payments, on average, than older women.

Another factor related to child support was the number of children the mother had with her in the absence of their father. Women with two children were the most likely to receive support.

PROGRAM TRENDS

Table 4 summarizes child support enforcement program trends since 1978. In 1988 $1.5 billion was spent to collect $4.6 billion. A sum of $3.95 was collected for every $1 of administrative expense. This was up by 37 percent from the low point of only $2.98 per administrative expense in 1982. Also, 312,000 paternities were established; 1,381,000 absent parents were located; 863,000 support obligations were established; collections were made for an average of 1,680,000 cases, 192,000 families were removed from AFDC because of child support collections; and nearly 10 percent of AFDC payments were saved as a result of child support enforcement.

Table 5 compares various measures of the effectiveness of the child support enforcement program between administrative data and census data. The first four rows of table 5 are from the Office of Child Support Enforcement and illustrate huge increases in total constant dollar collections, the number of absent parents located, and paternities and awards that were established between 1978 and 1987.

The bottom portion of the table based on census data presents an entirely different picture of the effectiveness of the child support enforcement program. For example, rather than having total collections increase by 117 percent, it shows that total collections declined between 1978 and 1985. Other measures of effectiveness from census data illustrate a similar picture.

One possible explanation for this different picture is that the official child support enforcement statistics are capturing collections that were being made anyway. The truth may lie somewhere in between as income from census survey data tends to be underreported on household surveys. To receive AFDC, mothers have had to assign their child support collections to AFDC. As a result, another problem with survey data is that AFDC mothers included in the CPS survey may not be able to distinguish what portion of their AFDC check represents a child support collection from an absent father and what portion represents an AFDC benefit.

The terms in table 5 from the Census are defined as follows. The term "demographically eligible" includes all women who are living with children under 21 years of age whose natural fathers are not living in the household. This includes ever-divorced (including remarried) or currently separated women. The percent with awards are the women with court-ordered payments. The reason the percent "supposed to receive payment" is different than the percent with awards is that some mothers awarded payments were not due them for the year in question.

Tables 6–23 present data showing the development of the child support program in recent years. In all of these tables, the 1988 data are preliminary.

TABLE 4.—PROGRAM OPERATIONS, SUMMARY OF NATIONAL (FEDERAL AND STATE) STATISTICS, FISCAL YEARS 1978–88

[Numbers in thousands, dollars in millions]

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total child support collections ...	$1,047	$1,333	$1,478	$1,630	$1,770	$2,024	$2,378	$2,696	$3,246	$3,917	$4,612
Total child support collections (1987 $) [1]	$1,842	$2,128	$2,077	$2,061	$2,085	$2,303	$2,598	$2,843	$3,338	$3,917	$4,431
Total AFDC collections [2]	$472	$597	$603	$671	$786	$880	$1,000	$1,092	$1,225	$1,349	$1,484
AFDC collections:											
Federal	311	244	246	266	311	349	402	341	369	413	448
State	148	274	274	302	354	396	448	415	424	473	524
Total non-AFDC collections	$575	$736	$874	$958	$984	$1,144	$1,378	$1,604	$2,019	$2,569	$3,128
Total administrative expenditures	$312	$383	$466	$526	$612	$691	$723	$814	$941	$1,066	$1,166
Administrative expenditures:											
Federal	236	287	349	394	459	487	507	571	633	750	801
State	76	96	117	132	153	204	216	243	308	316	365
Federal incentive payments to States and localities	$54	$66	$72	$90	$107	$121	$134	$131	$158	$185	$223
Average number of AFDC cases in which a collection was made	458	463	503	548	597	595	647	684	582	609	613
Average number of non-AFDC cases in which a collection was made	249	224	243	325	448	507	547	654	786	934	1,067
Number of families removed from AFDC due to child support collections	19	27	40	46	32	26	41	34	[4]287	194	192
Number of parents located	454	574	643	696	779	831	875	878	1,046	1,145	1381

Number of paternities established	111	138	144	164	173	208	219	232	245	269	312
Number of support obligations established	315	349	374	414	462	496	573	669	731	812	863
Percent of AFDC assistance payments recovered through child support collections	(3)	5.6	5.2	5.2	6.8	6.6	7.0	7.3	8.6	9.1	9.7
Total child support collections per dollar of total administrative expenses	$3.35	$3.48	$3.17	$3.09	$2.89	$2.93	$3.29	$3.31	$3.46	$3.68	$3.95

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[1] Adjusted for inflation using CPI.

[2] AFDC collections are divided into State/Federal shares and incentives are taken from the Federal share thereby reducing the Federal amounts.

[3] Not available.

[4] Definition changed to all cases closed where a child support payment was received.

Source: Office of Child Support Enforcement.

TABLE 5.—COMPARISON OF MEASURES OF IV–D EFFECTIVENESS WITH CENSUS CHILD SUPPORT DATA, 1978–87

Measure	Year				Percent change, 1978–85
	1978	1983	1985	1987	
From Child Support Program Statistics:					
Total collections (1987 dollars in billions)[1]	$1.8	$2.3	$2.8	$3.9	56
Parents located (thousands)	454	831	878	1,145	93
Paternities established (thousands)	111	208	232	269	109
Awards established (thousands)	315	496	669	812	112
From Census Surveys:					
Total collections (1987 dollars in billions)[1]	$8.2	$8.1	$7.6	NA	−7
IV–D collections as percent of total collections	23	28	37	NA	61
Of demographically eligible, percent with awards	59	58	61	NA	3
Of demographically eligible, percent supposed to receive payment	48	46	50	NA	4
Of demographically eligible, percent who received some payment	35	35	37	NA	6
Of mothers supposed to receive payment, percent who received full amount	49	50	48	NA	2
Percent of poor female-headed families with child support or alimony	[2] 18.6	NA	NA	26.0	[3] 40
Child support dual alimony as a percent of total income received by poor female-headed families	[2] 4.7	NA	NA	5.5	[3] 17
Percent of female-headed families with child support or alimony	[2] 33.9	NA	NA	35.8	[3] 6
Child support and alimony as a percent of total income received by female-headed families	[2] 7.4	NA	NA	6.8	[3] −8

[1] Constant (1987) dollars using CPI.
[2] 1979 data.
[3] Percentage change 1979 to 1987.
NA—Not available.

Sources: U.S. Bureau of the Census, Child Support and Alimony, Current Population Reports, Series P–23, 1978, No. 112; 1983, No. 141; 1985, No. 152.

TABLE 6.—STATE PROFILE OF COLLECTIONS AND EXPENDITURES, FISCAL YEAR 1988 [1]

[In millions of dollars]

State	Total collections	AFDC collections	Non-AFDC collections	Total expenditures
Alabama	44.6	15.8	28.7	17.8
Alaska	19.9	5.6	14.3	5.8
Arizona	21.2	4.2	17.0	10.1
Arkansas	20.2	10.4	9.9	6.9
California	440.4	218.6	221.8	160.4
Colorado	27.4	12.7	14.6	13.8
Connecticut	59.5	25.9	33.6	22.5
Delaware	15.5	4.7	10.8	5.9
District of Columbia	7.0	3.2	3.8	5.7
Florida	105.3	34.1	71.2	46.1
Georgia	65.1	28.5	36.7	22.6
Guam	.8	.3	.4	.5
Hawaii	15.1	6.5	8.6	4.2
Idaho	16.4	5.6	10.8	4.3
Illinois	105.8	41.0	64.9	39.5
Indiana	72.0	35.3	36.7	13.1
Iowa	55.5	28.1	27.4	8.7
Kansas	27.7	11.2	16.5	11.0
Kentucky	38.2	16.4	21.8	15.6
Louisiana	44.4	17.9	26.5	17.1
Maine	25.3	15.7	9.6	6.3
Maryland	111.7	30.4	81.3	33.8
Massachusetts	151.5	65.8	85.7	37.1
Michigan	579.2	131.7	447.5	65.8
Minnesota	98.7	40.4	58.3	27.5
Mississippi	19.0	9.0	10.0	6.2
Missouri	87.7	26.9	60.8	20.8
Montana	5.5	3.3	2.2	1.9
Nebraska	43.0	6.4	36.6	8.6
Nevada	10.8	3.0	7.8	5.5
New Hampshire	18.8	2.8	16.0	3.8
New Jersey	269.3	64.5	204.8	65.5
New Mexico	10.1	4.3	5.7	5.6
New York	297.7	110.9	186.8	121.1
North Carolina	86.1	37.7	48.4	26.0
North Dakota	7.1	4.2	2.9	2.3
Ohio	311.8	70.2	241.6	28.8
Oklahoma	21.4	8.7	12.8	8.7
Oregon	59.7	15.3	44.3	14.0
Pennsylvania	511.0	86.3	424.7	60.0
Puerto Rico	73.1	1.7	71.4	4.2
Rhode Island	14.8	7.4	7.4	4.1
South Carolina	40.4	12.7	27.8	12.5
South Dakota	8.2	3.6	4.7	2.4
Tennessee	50.7	18.7	32.0	12.4
Texas	83.7	27.3	56.3	29.7
Utah	29.9	13.2	16.7	10.5
Vermont	7.0	4.8	2.2	2.1
Virgin Islands	3.4	.3	3.1	.8
Virginia	75.8	18.1	57.7	31.7
Washington	89.0	44.3	44.6	35.9
West Virginia	14.6	5.1	9.5	6.7
Wisconsin	189.5	61.6	127.9	31.5
Wyoming	4.4	1.9	2.6	.9
Total	4,612.0	1,484.3	3,127.6	1,166.1

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[1] Totals may not add because of rounding. Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 7.—TOTAL CHILD SUPPORT COLLECTIONS, SELECTED FISCAL YEARS 1979–88

[In thousands of dollars]

State	1979	1981	1983	1985	1986	1987	1988 [1]
Alabama	6,854	5,021	8,643	25,532	32,499	39,976	44,562
Alaska	3,844	5,932	9,704	10,794	12,832	17,139	19,873
Arizona	6,411	8,755	10,563	12,874	13,730	20,114	21,186
Arkansas	3,921	4,856	7,401	9,988	14,865	16,267	20,217
California	199,945	201,426	254,586	305,096	336,569	394,882	440,407
Colorado	4,020	12,302	17,178	18,324	19,056	22,376	27,365
Connecticut	23,033	29,602	39,227	48,210	54,478	57,182	59,508
Delaware	5,814	6,945	8,097	10,698	12,232	13,871	15,540
District of Columbia	1,086	1,909	3,521	4,692	5,185	5,691	6,959
Florida	10,524	16,932	19,080	45,751	63,136	81,759	105,322
Georgia	5,554	8,304	13,439	26,281	35,276	48,082	65,148
Guam	160	149	391	433	487	627	752
Hawaii	5,150	7,547	10,087	11,642	11,791	15,985	15,076
Idaho	2,501	3,277	4,690	5,815	10,954	13,490	16,392
Illinois	10,740	13,943	32,025	54,530	72,647	89,622	105,821
Indiana	9,073	12,339	20,789	33,683	47,012	60,613	72,013
Iowa	13,017	21,522	29,185	34,350	40,558	49,325	55,522
Kansas	3,975	6,908	9,921	11,430	16,416	22,199	27,713
Kentucky	4,881	14,732	19,702	25,145	27,957	32,456	38,150
Louisiana	12,678	17,833	26,754	34,259	39,932	40,047	44,416
Maine	4,574	5,677	10,235	14,121	17,731	22,421	25,285
Maryland	20,856	35,193	77,129	83,807	95,737	92,706	111,734
Massachusetts	36,338	52,955	72,319	98,339	109,312	128,809	151,496
Michigan	248,414	305,396	273,799	341,178	424,647	531,137	579,195
Minnesota	21,370	29,988	44,893	58,850	68,889	79,467	98,731
Mississippi	1,662	2,510	4,887	6,895	11,798	15,431	19,046
Missouri	5,829	12,364	18,118	34,520	54,998	60,482	87,736
Montana	1,213	1,698	2,415	3,906	4,631	5,328	5,538
Nebraska	2,468	10,832	20,044	29,906	34,206	37,667	42,979
Nevada	3,487	4,011	5,556	7,280	8,977	9,844	10,787
New Hampshire	2,089	2,336	11,621	12,771	14,203	17,542	18,848
New Jersey	94,005	104,853	143,225	200,155	229,570	245,697	269,334
New Mexico	1,680	2,748	4,614	6,292	7,978	8,672	10,052
New York	136,361	141,670	174,454	199,550	221,953	269,218	297,656
North Carolina	9,168	17,196	30,830	45,042	55,381	69,895	86,112
North Dakota	1,723	1,936	2,723	3,645	4,665	5,483	7,088
Ohio	22,832	31,467	34,862	82,700	124,745	180,696	311,820
Oklahoma	1,826	3,224	5,233	9,233	12,977	16,365	21,435
Oregon	88,502	105,670	38,052	39,778	49,150	53,470	59,675
Pennsylvania	186,718	222,548	285,829	371,163	414,802	455,184	510,964
Puerto Rico	1,916	2,459	31,985	54,265	59,211	66,164	73,135
Rhode Island	3,575	3,772	7,196	8,634	10,466	11,915	14,801
South Carolina	3,545	5,323	7,461	11,063	21,756	33,581	40,450
South Dakota	1,407	1,768	2,847	3,154	4,473	6,184	8,249
Tennessee	8,976	10,217	19,077	23,562	31,390	38,406	50,685
Texas	8,207	11,633	17,941	30,311	43,209	61,184	83,674
Utah	6,624	9,710	13,594	16,759	22,316	24,766	29,885
Vermont	1,449	2,199	2,828	3,683	4,636	5,781	7,000
Virginia	9,197	9,904	13,617	16,278	2,038	3,020	3,426
Virgin Islands	260	429	684	2,339	24,610	58,859	75,751
Washington	27,018	31,756	41,643	56,830	61,151	72,320	88,927
West Virginia	1,592	2,349	3,434	4,691	5,701	9,724	14,590
Wisconsin	34,267	42,195	56,041	82,071	121,260	154,701	189,528
Wyoming	520	781	1,017	1,231	2,511	3,229	4,428
Nationwide total	1,332,847	1,629,000	2,024,184	2,693,528	3,248,690	3,897,051	4,611,980

[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 8.—TOTAL DISTRIBUTED AFDC COLLECTIONS, SELECTED FISCAL YEARS 1979–88

[In thousands of dollars]

State	1979	1981	1983	1985	1986	1987	1988 [1]
Alabama	6,830	5,021	7,789	14,863	14,454	15,050	15,858
Alaska	334	772	1,780	2,058	2,797	4,242	5,644
Arizona	642	1,221	1,459	1,636	2,725	4,805	4,234
Arkansas	2,428	2,684	4,593	6,318	8,084	8,771	10,358
California	117,532	100,437	136,963	154,024	172,414	198,152	218,620
Colorado	3,525	4,505	9,330	9,372	11,136	11,155	12,733
Connecticut	11,416	15,684	20,628	23,606	26,081	26,403	25,887
Delaware	1,386	2,001	2,276	3,847	3,987	4,150	4,718
District of Columbia	907	1,379	2,421	2,609	2,769	2,912	3,213
Florida	8,598	12,289	10,408	26,261	28,202	33,511	34,099
Georgia	4,772	7,441	11,355	19,268	21,456	25,244	28,496
Guam	159	117	259	281	273	299	335
Hawaii	2,544	3,127	4,482	5,162	5,138	5,698	6,479
Idaho	2,047	2,659	3,806	4,324	4,804	5,034	5,611
Illinois	9,916	12,347	18,971	27,936	32,392	38,706	40,976
Indiana	8,116	10,129	17,646	24,585	29,703	37,775	35,318
Iowa	10,654	15,218	19,978	23,858	26,016	28,184	28,092
Kansas	3,454	5,279	7,807	9,781	10,298	12,155	11,204
Kentucky	4,615	4,314	6,316	9,440	11,200	11,676	16,366
Louisiana	5,244	7,429	9,641	13,043	14,456	15,798	17,910
Maine	4,133	4,732	8,402	10,528	12,796	15,557	15,665
Maryland	10,929	15,912	27,773	28,197	31,529	31,083	30,399
Massachusetts	29,145	38,243	40,476	46,343	50,398	53,962	65,839
Michigan	76,375	87,304	97,694	111,925	125,426	127,508	131,677
Minnesota	14,510	20,290	25,708	30,805	33,921	35,822	40,390
Mississippi	1,556	2,284	4,544	4,807	5,928	7,599	9,025
Missouri	4,165	6,423	11,500	16,978	18,728	23,525	26,898
Montana	685	1,039	1,834	3,195	3,438	3,365	3,327
Nebraska	2,083	3,022	3,675	5,863	5,816	6,160	6,383
Nevada	517	879	1,824	1,731	2,860	2,673	3,021
New Hampshire	2,089	2,220	2,649	2,523	2,336	2,744	2,847
New Jersey	28,622	31,985	41,103	51,155	57,785	58,890	64,492
New Mexico	1,160	1,907	2,891	3,750	4,838	4,121	4,384
New York	56,588	47,790	68,622	79,148	82,512	102,115	110,887
North Carolina	7,714	11,774	18,795	23,531	27,803	33,249	37,696
North Dakota	1,379	1,542	2,011	2,660	3,118	3,517	4,169
Ohio	21,974	30,494	33,403	47,585	59,246	66,866	70,223
Oklahoma	1,260	2,254	3,648	6,559	7,219	7,143	8,682
Oregon	12,977	13,305	12,645	14,123	15,297	14,744	15,332
Pennsylvania	33,190	37,381	47,135	62,791	74,460	77,883	86,263
Puerto Rico	439	717	917	1,525	1,730	1,803	1,715
Rhode Island	3,438	3,624	4,217	5,126	5,901	6,157	7,410
South Carolina	3,065	4,437	6,015	7,720	10,544	13,218	12,649
South Dakota	1,137	1,225	2,175	2,305	2,678	2,966	3,567
Tennessee	3,871	3,519	5,567	5,868	9,757	12,086	18,719
Texas	6,370	8,308	10,879	15,959	17,619	19,703	27,343
Utah	5,442	8,133	11,643	11,441	12,140	11,733	13,181
Vermont	1,201	1,939	2,626	3,162	3,641	4,183	4,777
Virginia	9,081	8,737	11,758	13,930	212	243	286
Virgin Islands	143	150	140	211	13,687	15,536	18,059
Washington	18,319	19,244	26,495	32,021	33,483	38,429	44,301
West Virginia	1,430	2,201	3,311	4,544	5,344	5,647	5,085
Wisconsin	26,044	33,029	39,582	48,721	53,634	57,468	61,630
Wyoming	379	536	790	793	1,280	1,490	1,882
Nationwide total	596,532	670,637	879,862	1,089,798	1,225,485	1,358,907	1,484,352

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[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 9.—TOTAL NON-AFDC COLLECTIONS, SELECTED FISCAL YEARS 1979–88

[In thousands of dollars]

State	1979	1981	1983	1985	1986	1987	1988[1]
Alabama	16	698	854	10,669	18,045	24,926	28,704
Alaska	3,510	5,159	7,924	8,736	10,035	12,897	14,229
Arizona	5,769	7,534	9,104	11,238	11,005	15,309	16,952
Arkansas	1,494	2,172	2,808	3,670	6,782	7,496	9,859
California	82,412	100,989	117,623	151,072	164,155	196,730	221,786
Colorado	496	7,797	7,848	8,952	7,920	11,221	14,632
Connecticut	11,617	13,918	18,599	24,604	28,397	30,779	33,621
Delaware	4,428	4,943	5,821	6,850	8,245	9,721	10,822
District of Columbia	179	530	1,100	2,083	2,416	2,778	3,746
Florida	1,926	4,643	8,672	19,490	34,934	48,248	71,223
Georgia	783	863	2,084	7,013	13,820	22,838	36,652
Guam	(2)	32	131	152	214	327	417
Hawaii	2,606	4,420	5,605	6,480	6,653	10,287	8,597
Idaho	454	617	884	1,490	6,151	8,457	10,780
Illinois	823	1,596	13,054	26,594	40,255	50,917	64,846
Indiana	957	2,210	3,142	9,098	17,309	22,837	36,695
Iowa	2,363	6,304	9,701	10,492	14,542	21,140	27,430
Kansas	520	1,629	2,114	1,648	6,118	10,044	16,509
Kentucky	266	10,418	13,387	15,704	16,757	20,780	21,784
Louisiana	7,434	10,404	16,113	21,216	25,476	24,250	26,506
Maine	441	945	1,833	3,593	4,935	6,864	9,620
Maryland	9,927	19,281	49,356	55,609	64,208	61,623	81,336
Massachusetts	7,193	14,712	31,844	51,996	58,914	74,846	85,657
Michigan	172,039	218,092	176,105	229,254	299,221	403,629	447,518
Minnesota	6,861	9,698	19,184	28,045	34,968	43,645	58,342
Mississippi	106	226	343	2,088	5,870	7,832	10,023
Missouri	1,664	5,941	6,618	17,542	36,269	36,957	60,838
Montana	528	659	582	711	1,193	1,963	2,211
Nebraska	385	7,810	16,369	24,043	28,390	31,507	36,596
Nevada	2,970	3,132	3,731	5,549	6,117	7,172	7,767
New Hampshire	0	116	8,972	10,248	11,867	14,798	16,001
New Jersey	65,383	72,868	102,122	149,000	171,785	186,808	204,842
New Mexico	520	841	1,722	2,542	3,141	4,552	5,668
New York	79,773	93,880	105,831	120,402	139,441	167,103	186,769
North Carolina	1,454	5,422	12,035	21,511	27,578	36,646	48,417
North Dakota	344	394	712	986	1,548	1,966	2,919
Ohio	858	972	1,459	35,115	65,499	113,830	241,598
Oklahoma	566	970	1,585	2,674	5,758	9,222	12,753
Oregon	75,525	92,364	25,406	25,655	33,853	38,726	44,343
Pennsylvania	153,528	185,167	238,694	308,372	340,342	377,301	424,701
Puerto Rico	1,477	1,742	31,068	52,740	57,482	64,360	71,420
Rhode Island	137	148	2,979	3,508	4,565	5,759	7,392
South Carolina	480	886	1,446	3,342	11,213	20,363	27,801
South Dakota	270	543	672	848	1,796	3,218	4,682
Tennessee	5,105	6,626	13,510	17,694	21,633	26,321	31,966
Texas	1,837	3,325	7,062	14,353	25,589	41,481	56,331
Utah	1,183	1,577	1,952	5,317	10,177	13,032	16,704
Vermont	249	260	202	522	996	1,598	2,223
Virginia	116	1,167	1,858	2,347	1,825	2,777	3,139
Virgin Islands	116	278	544	2,128	10,924	43,323	57,693
Washington	8,699	12,512	15,148	24,808	27,668	33,891	44,626
West Virginia	162	147	123	147	357	4,076	9,505
Wisconsin	8,224	9,165	16,459	33,350	67,627	97,233	127,898
Wyoming	141	245	227	437	1,231	1,739	2,546
Nationwide total	736,315	958,291	1,144,322	1,603,730	2,023,205	2,538,144	3,127,629

[1] Preliminary data as of January 13, 1989.

[2] Less than $500.

Source: Office of Child Support Enforcement.

TABLE 10.—AVERAGE NUMBER OF AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, SELECTED FISCAL YEARS 1978–88

State	1978	1979	1981	1983	1985	1986	1987	1988 [1]
Total	458,439	463,100	547,707	594,679	684,114	581,571	604,370	613,116
Alabama	7,966	21,489	18,398	16,301	9,133	11,405	11,572	12,297
Alaska	246	213	613	1,154	1,120	933	1,038	1,076
Arizona	819	906	1,094	1,164	1,851	1,374	1,470	2,036
Arkansas	2,509	2,641	3,019	3,683	5,207	5,181	5,506	6,236
California	92,325	76,460	86,859	86,277	103,742	82,277	76,170	81,567
Colorado	3,177	2,875	3,322	4,129	5,687	3,723	4,092	4,267
Connecticut	8,002	9,078	11,245	13,591	15,565	16,013	13,337	7,304
Delaware	1,156	1,704	2,313	2,254	2,891	3,013	2,858	1,959
District of Columbia	708	758	848	1,508	1,925	2,067	2,138	2,289
Florida	7,376	6,710	9,837	11,856	16,468	16,310	16,489	26,883
Georgia	6,350	6,023	7,360	7,826	6,657	8,568	10,710	12,075
Guam	(2)	(2)	102	186	206	198	197	170
Hawaii	1,757	1,869	2,319	2,718	4,622	2,197	3,175	3,447
Idaho	1,346	1,166	1,122	936	4,343	1,106	1,245	1,391
Illinois	9,624	10,348	13,717	15,551	18,299	13,997	14,352	15,003
Indiana	9,488	6,339	8,226	19,514	22,058	11,287	16,188	25,748
Iowa	8,396	9,684	11,245	10,135	11,871	7,206	7,015	7,230
Kansas	2,859	2,842	3,764	4,205	4,769	3,200	3,798	3,020
Kentucky	3,083	3,341	4,638	4,601	6,729	5,988	6,853	7,530
Louisiana	5,204	5,461	6,652	6,944	7,836	8,930	9,916	10,651
Maine	2,368	3,043	4,297	6,141	7,178	4,437	4,734	4,975
Maryland	14,002	12,840	15,063	15,576	15,861	15,074	9,073	7,771
Massachusetts	17,782	19,357	22,147	22,655	25,350	10,015	17,211	17,072
Michigan	61,985	66,270	70,851	73,442	59,049	45,120	58,364	28,699
Minnesota	9,818	9,145	13,854	12,891	14,872	13,497	12,442	13,803
Mississippi	1,846	2,033	2,757	3,216	3,742	3,530	4,544	4,899
Missouri	(3)	3,550	5,048	2,465	7,716	5,979	6,483	8,899
Montana	748	540	726	1,178	1,600	1,092	849	919
Nebraska	1,509	1,333	1,559	1,841	2,362	2,961	2,555	2,176
Nevada	494	492	1,976	2,261	2,370	2,201	1,645	1,785
New Hampshire	1,530	1,710	2,093	1,512	1,021	749	981	943
New Jersey	16,243	31,161	28,663	24,712	27,686	23,354	25,182	23,253
New Mexico	1,429	1,650	1,772	2,027	2,034	2,785	2,175	3,125
New York	36,287	37,914	36,450	44,168	48,979	43,338	38,196	31,252
North Carolina	11,232	(2)	10,621	12,089	14,216	43,232	17,089	18,056
North Dakota	759	772	1,074	1,193	1,656	898	1,130	1,379
Ohio	24,419	20,456	26,097	28,064	32,582	37,016	35,273	34,110
Oklahoma	1,101	724	2,052	2,487	3,543	4,019	1,468	5,007
Oregon	6,761	6,771	6,330	4,020	6,687	6,016	5,935	6,286
Pennsylvania	15,172	13,376	22,406	35,405	42,088	48,960	48,817	47,515
Puerto Rico	413	636	2,044	2,281	3,736	3,458	3,588	3,647
Rhode Island	2,419	2,698	3,176	2,441	3,233	2,241	3,092	4,258
South Carolina	3,343	(2)	4,091	4,182	5,785	6,008	10,495	13,524
South Dakota	1,087	983	1,016	1,223	1,532	1,492	1,887	2,218
Tennessee	4,705	4,674	6,099	6,642	8,336	8,959	9,430	10,709
Texas	5,446	5,641	5,370	4,099	5,652	8,353	9,167	11,931
Utah	3,784	3,857	4,663	5,346	5,209	3,313	3,627	2,827
Vermont	953	1,057	1,778	2,223	2,329	1,547	1,984	1,972
Virgin Islands	232	145	115	82	199	222	220	227
Virginia	4,729	2,802	9,059	13,554	13,054	12,189	10,813	9,797
Washington	14,860	14,184	15,078	14,160	15,895	15,204	18,110	20,646
West Virginia	1,430	1,721	1,829	2,044	2,331	2,463	2,107	2,166
Wisconsin	16,868	21,391	20,514	26,106	44,799	23,720	26,847	34,140
Wyoming	294	267	346	420	453	656	738	951

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[1] Preliminary data as of January 13, 1989.

[2] Data not reported for this item or insufficient data reported to perform indicated computation.

[3] Less than $500.

Source: Office of Child Support Enforcement.

TABLE 11.—AVERAGE NUMBER OF NON-AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, SELECTED FISCAL YEARS 1978–88

State	1978	1979	1981	1983	1985	1986	1987	1988 [1]
Total	248,590	223,809	325,280	507,031	653,803	785,706	930,554	1,067,179
Alabama	110	50	26	221	5,023	11,133	11,583	14,258
Alaska	2,309	2,008	1,967	3,035	3,205	2,564	3,184	3,484
Arizona	(2)	3,478	0	5,525	4,770	4,250	4,668	6,133
Arkansas	764	1,521	2,137	2,803	3,613	4,048	5,074	6,309
California	69,696	54,019	56,803	66,164	64,686	71,357	78,395	87,623
Colorado	1,017	780	2,963	3,647	3,976	3,187	4,537	5,387
Connecticut	(2)	0	0	7,826	9,392	9,808	9,884	9,390
Delaware	3,210	3,104	3,302	3,611	4,395	4,212	5,073	5,719
District of Columbia	93	43	200	478	1,007	1,116	1,264	1,650
Florida	1,200	2,101	1,941	8,002	7,593	7,434	13,008	39,035
Georgia	1,207	1,451	2,018	4,091	5,487	8,284	14,883	19,830
Guam	(2)	0	39	63	65	86	114	105
Hawaii	(2)	0	261	308	352	3,926	2,804	4,848
Idaho	455	314	435	591	1,047	1,613	2,529	3,643
Illinois	196	1,260	3,423	6,433	10,030	12,171	14,479	18,324
Indiana	450	675	1,209	1,784	2,881	8,578	12,759	18,252
Iowa	671	1,460	3,419	4,192	4,913	5,095	3,441	8,183
Kansas	210	320	945	1,449	758	3,095	5,260	7,923
Kentucky	255	1,667	2,076	3,657	3,647	9,091	15,549	14,644
Louisiana	6,866	965	7,706	9,517	10,636	11,940	11,695	13,255
Maine	638	296	196	296	1,496	3,056	3,862	4,831
Maryland	130	0	6,186	27,384	26,154	30,875	12,685	7,623
Massachusetts	(2)	0	0	0	0	22,226	26,549	31,681
Michigan	(2)	0	0	51,304	88,675	84,397	126,187	91,822
Minnesota	2,766	3,866	5,707	10,263	12,615	14,067	16,137	19,966
Mississippi	81	153	248	320	1,319	2,742	4,348	5,031
Missouri	(2)	913	1,754	1,631	5,362	10,001	14,676	19,246
Montana	444	301	329	348	344	470	800	737
Nebraska	176	181	2,432	4,942	7,874	9,108	10,540	12,684
Nevada	4,026	2,558	4,650	4,084	5,360	3,929	3,212	3,696
New Hampshire	(2)	0	0	5,433	4,939	3,926	5,474	5,596
New Jersey	20,000	13,295	29,130	38,557	45,868	53,091	51,706	53,472
New Mexico	286	875	1,035	1,806	2,249	1,637	2,462	3,264
New York	39,623	37,854	48,370	54,296	63,829	66,234	76,630	72,973
North Carolina	1,715	0	3,190	5,910	10,137	11,744	15,323	19,112
North Dakota	154	149	99	171	266	653	865	1,135
Ohio	1,430	1,033	1,857	4,594	10,853	27,315	39,114	67,292
Oklahoma	(2)	184	719	1,269	1,968	2,977	4,867	6,536
Oregon	17,957	28,807	32,472	16,262	19,331	18,467	20,620	22,470
Pennsylvania	49,621	37,877	66,691	92,084	108,498	123,878	122,073	137,351
Puerto Rico	710	178	6,846	17,908	26,873	28,051	30,490	33,926
Rhode Island	57	110	294	1,407	1,969	2,059	2,750	3,253
South Carolina	203	0	472	1,198	2,777	2,706	3,165	4,498
South Dakota	297	254	391	512	502	1,144	2,175	3,176
Tennessee	6,360	7,816	6,251	10,271	12,156	13,001	14,957	18,417
Texas	2,861	1,673	2,744	4,224	8,833	9,595	15,079	20,674
Utah	400	427	489	698	1,068	2,750	4,008	5,825
Vermont	181	194	194	194	393	570	967	1,171
Virgin Islands	1	64	188	262	1,288	1,188	1,252	1,508
Virginia	38	36	1,078	1,554	876	5,689	19,273	20,909
Washington	4,822	5,115	6,215	7,422	9,802	10,456	13,656	17,425
West Virginia	130	147	185	186	288	157	1,953	3,830
Wisconsin	4,685	4,150	3,876	6,719	20,288	34,146	41,953	56,694
Wyoming	89	87	122	125	77	413	563	1,360

[1] Preliminary data as of January 13, 1989.

[2] Data not reported for this item or insufficient data reported to perform indicated computation.

Source: Office of Child Support Enforcement.

TABLE 12.—NUMBER OF FAMILIES REMOVED FROM AFDC DUE TO CHILD SUPPORT COLLECTIONS, SELECTED FISCAL YEARS 1978–88

State	1978	1979	1981	1983	1985	1986	1987	1988 [1]
Total	18,744	27,480	45,631	26,194	33,897	287,359	189,543	192,264
Alabama	1,048	284	135	2,011	324	425	480	385
Alaska	([2])	398	150	220	13	220	581	313
Arizona	118	17	31	10	0	0	0	0
Arkansas	824	215	297	308	109	3,128	3,973	4,484
California	([2])	0	0	0	445	8,714	17,433	18,398
Colorado	1,419	288	172	0	618	1,196	1,648	1,385
Connecticut	([2])	640	209	196	667	383	594	240
Delaware	([2])	128	0	94	54	0	0	365
District of Columbia	7	11	53	0	0	0	0	0
Florida	434	356	582	457	305	0	0	1,062
Georgia	([2])	272	0	37	1,600	3,118	5,427	7,424
Guam	([2])	0	15	69	0	10	23	6
Hawaii	29	0	27	189	140	104	161	118
Idaho	66	80	480	55	38	827	723	855
Illinois	718	0	0	546	615	1,571	4,923	8,229
Indiana	([2])	0	5,770	0	154	12,282	5,124	4,280
Iowa	([2])	780	41	23	21	1,516	1,620	1,836
Kansas	1,770	1,197	483	89	194	1,836	2,112	2,236
Kentucky	([2])	0	436	375	257	1,282	2,189	2,387
Louisiana	([2])	796	1,022	732	645	610	221	247
Maine	([2])	0	650	572	197	1,839	2,213	2,499
Maryland	1,848	1,184	970	648	0	3,583	2,744	2,809
Massachusetts	([2])	206	0	370	1,258	[3] 144,934	8,655	8,754
Michigan	209	1,417	1,639	1,008	570	445	489	421
Minnesota	582	490	1,146	815	808	5,175	5,458	7,255
Mississippi	47	0	86	0	68	1,622	1,514	1,667
Missouri	([2])	96	952	0	0	48,068	53,355	5,366
Montana	138	141	82	29	53	52	41	9
Nebraska	96	72	46	3	23	21	8	16
Nevada	([2])	0	106	138	79	126	115	96
New Hampshire	34	0	0	0	28	18	0	204
New Jersey	2,007	2,218	3,155	2,573	4,386	7,006	10,150	11,638
New Mexico	123	7	66	47	51	174	90	8
New York	([2])	2,050	2,495	3,318	6,105	5,771	33,089	58,166
North Carolina	([2])	244	289	288	145	117	150	70
North Dakota	([2])	1,218	125	578	1,673	2,044	1,145	1,438
Ohio	([2])	243	584	501	226	131	135	192
Oklahoma	859	208	159	169	101	12,096	2,749	4,254
Oregon	3,144	3,654	478	243	113	88	94	2,911
Pennsylvania	([2])	2,713	0	905	665	6,784	7,954	10,132
Puerto Rico	113	64	260	556	1,032	13	12	8
Rhode Island	([2])	1,810	1,383	0	282	1,278	569	637
South Carolina	51	0	724	0	1,867	158	77	51
South Dakota	287	136	123	30	36	746	1,082	1,164
Tennessee	([2])	0	16,152	4,223	2,730	1,661	1,690	2,325
Texas	1,921	1,697	1,405	2,111	2,851	2,210	2,236	2,008
Utah	329	331	401	0	647	670	953	1,043
Vermont	([2])	0	0	0	0	348	1,321	1,444
Virgin Islands	([2])	5	1	0	1	5	64	385
Virginia	167	1,475	524	0	111	107	1,174	4,229
Washington	([2])	0	0	0	0	506	1,388	4,541
West Virginia	270	250	1,383	932	689	509	485	578
Wisconsin	([2])	0	233	518	903	1,014	997	1,565
Wyoming	86	89	111	208	0	8	115	131

[1] Preliminary data as of January 13, 1989.

[2] Data not reported for this item or insufficient data reported to perform indicated computation.

[3] This number reflects a revised definition in Massachusetts for fiscal year 1986.

Note: These data are maintained by IV–A agencies, which often results in reporting difficulties for IV–D agencies. Also, 1986 data was reported using a new definition. These data represent IV–A cases closed when a child support payment was received.

Source: Office of Child Support Enforcement.

TABLE 13.—TOTAL NUMBER OF PATERNITIES ESTABLISHED, SELECTED FISCAL YEARS 1978–88

State	1978	1979	1981	1983	1985	1986	1987	1988 [1]
Total	110,714	137,645	163,538	208,270	231,838	244,996	255,097	312,133
Alabama	6,160	6,161	4,884	4,833	6,750	6,727	6,998	7,527
Alaska	5	3	73	105	84	252	364	602
Arizona	287	154	542	595	495	986	1,009	714
Arkansas	3,745	2,586	677	1,489	2,941	7,144	5,326	5,903
California	14,188	19,364	22,791	21,714	23,820	25,118	28,081	36,001
Colorado	1,137	1,046	1,103	1,033	1,426	1,451	1,291	1,541
Connecticut	2,566	3,029	3,769	4,563	4,622	4,579	3,908	3,485
Delaware	242	205	694	1,346	1,120	1,986	1,867	1,584
District of Columbia	378	386	907	811	583	664	1,021	1,055
Florida	6,684	7,078	7,557	10,679	14,452	14,358	12,759	14,840
Georgia	2,527	3,642	5,329	6,102	5,809	12,323	14,112	21,321
Guam	(2)	(2)	297	173	170	128	122	145
Hawaii	726	854	794	1,181	688	836	1,061	1,442
Idaho	40	287	79	84	383	299	384	590
Illinois	1,351	3,025	6,028	7,339	7,035	10,820	20,848	26,837
Indiana	2,052	1,644	1,287	3,036	5,149	3,580	3,570	5,135
Iowa	(2)	575	1,373	922	1,366	1,853	1,664	1,893
Kansas	521	696	1,141	682	325	528	1,119	1,505
Kentucky	367	784	2,157	2,986	3,315	3,464	3,881	4,306
Louisiana	1,013	1,304	2,869	3,195	4,235	4,234	2,926	3,460
Maine	(2)	382	339	604	809	570	951	1,774
Maryland	6,294	13,307	10,435	8,211	9,263	8,167	6,671	9,248
Massachusetts	1,218	2,096	3,564	3,766	5,208	2,513	7,025	14,103
Michigan	6,567	7,529	10,696	17,374	16,186	17,737	18,274	19,965
Minnesota	1,249	1,786	2,526	2,994	3,265	3,646	3,856	4,281
Mississippi	819	932	1,725	1,797	2,600	1,964	1,840	2,928
Missouri	(2)	(2)	476	17,522	14,423	10,208	0	7,812
Montana	68	92	97	37	54	120	179	316
Nebraska	(2)	(2)	268	410	430	461	710	766
Nevada	214	233	395	409	477	503	531	630
New Hampshire	42	35	71	30	13	76	195	346
New Jersey	7,503	8,242	11,282	10,616	13,853	13,731	13,938	13,034
New Mexico	170	322	1,258	1,141	709	838	412	974
New York	16,025	17,503	12,041	15,884	16,595	16,929	18,446	17,188
North Carolina	5,129	6,592	6,728	7,368	9,307	10,014	9,916	11,219
North Dakota	280	293	328	440	530	830	1,134	1,022
Ohio	2,305	4,808	7,658	7,767	9,314	10,057	9,133	7,128
Oklahoma	32	43	698	1,811	590	430	512	1,049
Oregon	1,528	1,521	2,199	2,173	2,189	2,351	1,902	1,749
Pennsylvania	4,811	4,450	7,305	11,906	15,613	17,443	15,164	16,156
Puerto Rico	25	22	38	19	5	22	6	42
Rhode Island	(2)	347	354	451	244	98	601	803
South Carolina	1,055	1,378	1,536	2,552	3,479	2,538	3,994	5,679
South Dakota	104	60	137	172	300	426	552	575
Tennessee	5,077	5,003	5,669	6,592	6,863	7,021	7,666	8,404
Texas	215	202	1,822	1,085	833	900	684	1,034
Utah	166	487	1,076	1,546	1,418	1,103	1,292	1,477
Vermont	77	44	245	349	388	688	1,091	2,188
Virgin Islands	1	4	3	104	146	106	235	435
Virginia	846	1,452	1,995	2,351	1,962	2,039	2,667	5,761
Washington	291	656	981	1,700	2,187	2,018	4,066	4,638
West Virginia	155	156	482	467	223	194	288	790
Wisconsin	4,440	4,803	4,672	5,688	7,384	7,812	8,750	8,654
Wyoming	19	44	88	66	210	113	105	79

[1] Preliminary data as of January 13, 1989.

[2] Data not reported for this item or insufficient data reported to perform indicated computation.

Source: Office of Child Support Enforcement.

TABLE 14.—TOTAL NUMBER OF SUPPORT OBLIGATIONS ESTABLISHED, SELECTED FISCAL YEARS 1978–88

State	1978	1979	1981	1983	1985	1986	1987	1988 [1]
Total	314,584	349,122	414,053	496,294	668,942	730,560	812,240	862,524
Alabama	8,545	7,585	5,137	6,766	17,781	11,476	12,182	13,423
Alaska	178	553	955	1,197	1,311	2,026	2,376	2,225
Arizona	(2)	686	2,993	3,069	2,761	2,587	2,385	1,704
Arkansas	6,277	3,382	3,484	3,519	5,698	12,704	9,070	9,312
California	51,752	61,806	63,323	54,598	54,310	54,651	49,399	49,267
Colorado	5,553	4,996	6,560	6,356	5,576	4,599	4,034	4,220
Connecticut	27,858	11,123	12,474	16,272	8,389	9,398	6,632	8,417
Delaware	247	276	1,814	1,709	1,953	3,669	3,340	3,425
District of Columbia	468	416	550	357	701	732	1,236	1,590
Florida	13,742	11,560	13,778	18,098	21,037	28,339	28,811	32,093
Georgia	4,443	5,739	7,372	9,551	8,687	12,323	14,747	26,318
Guam	(2)	(2)	169	132	146	105	152	179
Hawaii	2,585	1,748	2,069	3,351	3,234	2,434	2,251	2,746
Idaho	899	9,444	3,965	763	861	696	1,023	1,272
Illinois	16,512	11,379	10,933	22,850	20,819	19,455	21,278	33,288
Indiana	3,471	2,314	12,719	12,282	12,307	15,788	23,750	22,738
Iowa	(2)	4,204	10,752	8,490	7,358	8,725	8,264	6,587
Kansas	5,301	2,781	2,600	1,636	1,800	1,896	2,235	2,785
Kentucky	516	1,590	5,718	4,826	6,048	7,639	9,284	10,914
Louisiana	2,094	4,587	7,678	9,483	21,419	15,155	16,553	16,665
Maine	(2)	1,115	3,109	3,374	4,093	4,891	5,217	5,648
Maryland	10,341	8,128	10,100	9,238	27,592	32,797	36,902	21,808
Massachusetts	10,154	9,758	12,414	9,196	11,950	17,887	40,477	47,661
Michigan	6,123	7,572	10,445	15,436	35,416	57,845	84,492	109,247
Minnesota	1,747	4,095	8,268	6,626	10,130	9,798	8,372	10,430
Mississippi	720	730	822	861	3,065	2,418	1,895	2,783
Missouri	(2)	(2)	3,719	12,110	51,918	38,520	21,194	13,349
Montana	139	78	69	486	881	955	500	816
Nebraska	218	(2)	789	875	662	1,147	1,484	1,076
Nevada	1,889	1,579	4,362	3,883	3,339	3,405	4,106	3,139
New Hampshire	162	1,828	219	2,060	387	424	408	443
New Jersey	18,408	27,034	24,744	28,481	37,724	29,300	32,704	35,335
New Mexico	1,758	2,826	4,416	4,290	3,044	2,691	2,164	4,044
New York	25,098	28,379	27,987	37,131	43,733	51,063	47,840	31,549
North Carolina	4,282	10,577	11,473	12,584	17,277	18,764	16,859	18,502
North Dakota	589	571	443	528	523	878	1,162	1,451
Ohio	6,216	10,248	7,796	8,461	14,080	15,680	15,741	18,051
Oklahoma	624	1,770	3,824	3,747	4,113	4,793	3,752	4,062
Oregon	479	7,660	7,259	6,989	5,830	4,635	5,053	5,813
Pennsylvania	30,243	32,347	34,942	71,041	99,619	108,188	130,019	151,163
Puerto Rico	1,484	1,199	5,372	9,623	12,764	12,427	13,413	14,991
Rhode Island	(2)	2,391	2,835	4,514	2,322	3,046	2,607	2,793
South Carolina	1,065	924	1,272	1,928	4,747	3,613	6,117	6,932
South Dakota	1,735	(2)	338	516	653	1,035	1,690	1,493
Tennessee	2,603	3,408	4,149	7,307	10,742	13,045	16,536	20,881
Texas	12,171	12,066	11,784	13,523	12,461	31,671	32,881	7,673
Utah	4,520	3,582	4,794	6,251	6,551	5,331	5,217	5,412
Vermont	250	944	1,327	1,436	2,671	2,152	2,345	3,235
Virgin Islands	116	33	138	142	886	541	529	652
Virginia	969	2,407	7,949	5,223	7,594	7,785	19,509	30,034
Washington	10,340	9,546	9,211	10,948	9,961	7,767	10,312	11,118
West Virginia	349	382	728	558	700	464	843	1,157
Wisconsin	9,170	9,678	11,544	11,306	18,860	20,685	20,445	20,283
Wyoming	181	98	369	317	458	522	453	332

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[1] Preliminary data as of January 13, 1989.

[2] Data not reported for this item or insufficient data reported to perform indicated computation.

Source: Office of Child Support Enforcement.

TABLE 15.—PERCENTAGE OF AFDC ASSISTANCE PAYMENTS RECOVERED THROUGH CHILD SUPPORT COLLECTIONS, SELECTED FISCAL YEARS 1979–88

State	1979	1981	1983	1985	1986	1987	1988 [1]
Total	5.8	5.2	6.6	7.3	8.6	9.2	9.7
Alabama	8.5	6.5	10.6	21.0	21.2	23.2	25.5
Alaska	1.5	2.3	5.9	4.6	5.6	8.3	10.5
Arizona	2.0	2.6	2.3	2.5	3.5	5.1	4.1
Arkansas	4.8	5.3	13.3	15.2	16.6	17.6	19.4
California	6.5	4.0	4.6	4.5	5.7	6.1	6.4
Colorado	4.8	5.1	9.4	9.3	10.5	9.5	10.2
Connecticut	6.5	7.6	12.7	10.1	11.4	12.2	12.0
Delaware	4.4	6.2	8.4	14.6	16.3	17.3	19.6
District of Columbia	1.0	1.6	3.0	3.3	3.6	3.8	4.2
Florida	5.5	5.9	4.3	10.0	10.1	11.5	10.7
Georgia	4.3	5.0	6.0	9.8	9.3	10.4	10.7
Guam	5.3	3.0	6.1	6.4	6.0	9.1	10.8
Hawaii	2.9	3.4	5.3	6.6	7.6	8.9	8.9
Idaho	8.9	12.1	17.8	22.6	24.8	25.0	29.0
Illinois	1.5	1.6	2.3	3.2	4.0	4.8	5.4
Indiana	7.2	7.0	12.1	16.1	20.2	25.8	21.1
Iowa	9.0	10.3	13.5	15.0	18.2	19.6	20.1
Kansas	5.0	6.0	8.6	11.6	12.6	14.1	12.6
Kentucky	3.8	2.9	5.0	6.8	8.0	8.5	11.5
Louisiana	5.2	5.7	7.2	8.4	8.9	9.1	9.8
Maine	7.3	8.1	13.3	13.4	16.7	20.6	21.1
Maryland	6.1	7.0	12.4	11.6	12.9	12.7	12.3
Massachusetts	6.6	7.4	13.6	11.3	11.5	10.7	12.0
Michigan	9.0	7.9	8.6	9.7	12.8	12.5	12.5
Minnesota	7.8	8.4	10.0	10.5	13.1	12.7	14.0
Mississippi	2.9	3.7	8.0	7.9	8.1	9.4	10.6
Missouri	2.8	3.4	6.1	9.6	9.8	12.0	13.5
Montana	4.4	5.6	7.7	10.7	11.0	8.6	8.2
Nebraska	5.4	6.4	6.8	10.0	10.7	11.5	12.6
Nevada	6.3	7.1	16.8	14.9	18.3	16.4	14.8
New Hampshire	9.4	8.0	11.2	12.4	12.1	15.2	13.5
New Jersey	5.9	5.9	8.1	9.7	11.4	12.5	14.5
New Mexico	3.4	4.2	6.7	7.3	13.7	7.4	7.8
New York	3.5	3.2	3.9	4.0	4.3	5.0	5.3
North Carolina	5.6	7.5	16.3	15.0	15.2	17.4	18.4
North Dakota	9.6	9.8	13.5	14.7	15.8	16.8	19.0
Ohio	4.8	5.0	5.1	6.2	8.9	10.1	10.3
Oklahoma	1.6	2.5	4.7	7.5	7.2	6.4	7.3
Oregon	9.0	12.0	12.6	13.3	13.1	13.0	12.8
Pennsylvania	4.6	4.9	6.4	8.4	10.5	11.0	12.3
Puerto Rico	.7	1.1	2.9	2.4	2.8	2.7	2.6
Rhode Island	6.1	4.8	6.3	7.0	7.5	7.7	9.1
South Carolina	5.4	5.6	7.9	8.6	10.2	13.1	14.0
South Dakota	6.5	7.1	12.4	12.9	13.8	14.0	17.0
Tennessee	5.0	4.1	6.9	6.5	9.7	10.3	14.9
Texas	5.4	6.3	7.0	6.9	6.2	6.2	7.9
Utah	13.7	16.3	21.6	22.7	22.7	19.6	21.5
Vermont	4.1	5.0	7.2	8.4	10.4	11.1	12.7
Virgin Islands	8.5	5.3	4.7	7.6	7.7	8.4	12.3
Virginia	6.3	5.0	7.0	8.3	7.7	9.0	10.7
Washington	12.5	8.1	10.1	9.8	11.2	10.9	12.4
West Virginia	2.6	3.6	5.8	5.1	7.5	7.8	6.9
Wisconsin	9.5	8.7	8.8	8.8	11.5	12.4	14.5
Wyoming	5.6	6.3	7.1	5.5	8.8	8.2	10.1

[1] Preliminary data as of January 13, 1989.

Note: Payments to AFDC Unemployed Parent (UP) families have been excluded from the maintenance assistance payments totals in those States having AFDC–UP programs.

Source: Office of Child Support Enforcement.

TABLE 16.—FEDERAL INCOME TAX REFUND OFFSET PROGRAM COLLECTIONS, FISCAL YEARS 1982–88

State	1982	1983	1985	1986	1987	1988
Alabama	$829,981	$1,554,532	$3,208,116	$4,158,370	$5,134,530	$5,735,316
Alaska	113,964	211,588	364,352	730,773	891,177	1,087,192
Arizona		385,357	1,061,518	1,735,826	2,049,100	2,677,876
Arkansas	678,754	1,103,566	1,885,789	3,536,308	3,769,850	3,874,194
California	47,278,536	35,033,947	34,926,396	45,040,352	46,286,565	48,630,233
Colorado	1,318,097	3,016,164	2,392,575	3,096,581	3,020,479	3,342,502
Connecticut	6,589,307	4,455,263	4,223,787	5,696,890	6,140,042	7,904,102
Delaware	44,975	165,929	1,284,104	1,270,313	1,318,987	1,464,924
District of Columbia	586,913	566,848	746,926	761,360	778,803	652,211
Florida	47,460	1,979,829	3,937,836	5,782,072	7,317,971	13,080,771
Georgia	17,724	1,525,893	3,710,746	6,561,813	7,257,829	8,833,068
Guam		13,495	13,562		43,735	14,045
Hawaii	311,330	816,566	846,387	1,079,724	1,121,934	1,371,991
Idaho	1,492,980	1,183,105	1,203,527	1,428,403	1,593,848	1,836,506
Illinois	3,522,114	4,524,565	9,018,581	13,808,087	15,415,049	15,167,375
Indiana	1,278,354	4,939,883	8,975,438	11,780,348	11,389,957	13,447,280
Iowa	4,328,872	5,526,322	6,783,766	8,006,046	7,798,078	8,835,337
Kansas	2,685,617	2,525,333	2,904,537	3,460,795	3,703,519	4,346,414
Kentucky	2,168,561	1,165,135	2,298,529	3,099,365	3,261,918	6,313,869
Louisiana	1,426,863	1,536,006	2,487,475	4,443,087	4,722,260	5,388,385
Maine	664,374	1,844,168	2,126,207	2,483,995	3,377,197	4,062,530
Maryland	7,912,475	5,687,760	6,118,488	9,425,858	9,645,911	14,765,437
Massachusetts	2,139,366	3,324,872	4,224,674	4,759,597	5,269,023	12,137,128
Michigan	20,928,752	18,249,916	20,013,492	27,204,565	25,893,309	28,295,861
Minnesota	7,040,081	5,575,703	5,904,025	6,967,590	6,762,396	7,510,456
Mississippi	1,055,579	1,019,253	1,976,454	2,161,479	2,252,051	2,958,347
Missouri	6,467,902	4,288,944	4,849,186	7,124,967	8,481,658	10,992,690
Montana	177,985	431,107	857,855	1,151,151	1,209,404	1,223,531
Nebraska		501,968	1,204,572	1,240,436	1,395,395	2,315,912
Nevada	428,182	354,403	389,049	477,143	432,571	496,263
New Hampshire	474,129	756,639	662,364	1,346,108	1,283,608	1,237,482
New Jersey	9,348,364	9,458,355	11,449,337	13,831,313	14,267,810	15,195,181
New Mexico	206,602	533,226	1,315,407	1,719,059	2,277,767	2,434,052
New York	7,445,728	9,945,365	11,996,379	17,419,887	27,991,436	24,030,222
North Carolina	39,888	4,234,868	4,290,753	7,561,568	7,229,286	9,352,351
North Dakota	320,818	351,782	534,445	774,297	847,989	791,912
Ohio	649,865	2,885,540	7,229,010	8,705,343	11,185,599	14,164,131
Oklahoma	49,690	702,729	2,178,542	2,519,402	2,217,930	3,328,439
Oregon	7,069,119	3,782,458	3,566,932	5,479,093	4,862,510	5,080,050
Pennsylvania	2,304,759	6,112,433	13,549,899	17,430,478	17,123,072	19,880,479
Puerto Rico		1,742	13,047		13,408	51,924
Rhode Island	87,631	838,028	775,077	967,250	880,380	1,439,176
South Carolina	138,404	367,589	832,341	1,238,379	1,788,816	2,197,304
South Dakota	275,351	374,463	623,409	900,309	997,728	1,269,796
Tennessee	41,501	641,997	1,591,819	2,178,356	3,025,410	6,256,119
Texas		3,906,440	5,927,713	9,757,440	11,316,080	14,128,517
Utah	3,635,336	2,539,972	2,764,993	2,992,094	2,990,918	3,389,543
Vermont	1,245,080	611,431	748,212	946,258	886,590	1,214,441
Virgin Islands					36,999	38,578
Virginia	1,435,103	1,674,400	3,532,487	3,704,510	6,839,861	10,383,393
Washington	3,001,125	4,277,743	6,200,914	7,989,119	10,510,140	11,054,011
West Virginia	258,507	1,037,796	1,823,086	1,913,420	2,012,688	2,545,997
Wisconsin	8,340,059	6,265,914	7,973,405	9,597,270	10,029,403	12,723,028
Wyoming	165,555	221,757	280,427	387,739	503,122	599,701
Nationwide total	168,067,712	175,021,087	229,797,947	307,831,986	338,853,096	401,547,573

Source: Office of Child Support Enforcement.

TABLE 17.—ADMINISTRATIVE EXPENDITURES FOR THE CHILD SUPPORT ENFORCEMENT PROGRAM, SELECTED FISCAL YEARS 1979–88

[In thousands of dollars]

State	1979	1981	1982	1983	1985	1986	1987	1988 [1]
Alabama	4,633	5,637	7,089	9,132	12,786	13,273	14,878	17,839
Alaska	2,137	2,422	2,760	4,016	4,772	4,916	5,625	5,751
Arizona	2,014	4,659	3,415	5,891	5,996	9,397	9,096	10,052
Arkansas	2,385	3,657	4,722	4,539	5,252	5,670	5,532	6,870
California	75,579	100,807	112,766	127,171	131,625	141,939	156,472	160,408
Colorado	3,861	6,078	6,630	7,987	8,827	10,058	11,806	13,746
Connecticut	5,463	7,833	9,462	11,899	14,252	15,589	19,682	22,510
Delaware	852	2,512	2,066	3,299	1,903	4,965	4,519	5,924
District of Columbia	1,652	3,255	4,267	4,968	4,424	5,647	5,485	5,745
Florida	7,047	10,345	14,109	15,718	21,741	29,744	41,476	46,094
Georgia	3,238	4,777	7,089	8,208	11,793	13,624	15,200	22,588
Guam	108	161	223	315	296	351	411	465
Hawaii	1,408	2,708	3,094	3,705	4,902	5,227	5,157	4,170
Idaho	1,063	1,464	1,684	2,145	3,016	3,063	3,321	4,320
Illinois	6,930	14,622	16,627	16,320	25,515	30,256	35,746	39,467
Indiana	4,269	6,147	7,619	6,766	8,887	9,759	11,601	13,119
Iowa	4,239	5,808	6,231	5,930	5,805	5,987	7,925	8,733
Kansas	1,819	3,843	4,660	5,220	5,586	7,651	8,609	11,037
Kentucky	4,027	6,012	7,075	7,674	9,387	11,109	12,533	15,621
Louisiana	7,079	9,401	10,546	12,860	16,108	18,047	17,587	17,108
Maine	1,229	1,863	2,625	2,942	3,545	4,743	5,986	6,306
Maryland	8,177	13,973	13,886	16,355	21,739	25,365	32,384	33,791
Massachusetts	6,710	14,271	16,533	19,794	27,515	31,257	37,831	37,083
Michigan	24,614	30,364	36,575	41,365	44,750	50,979	55,923	65,825
Minnesota	9,273	12,937	16,407	17,358	20,249	22,796	22,656	27,480
Mississippi	1,574	1,965	2,402	2,936	3,411	5,155	4,590	6,230
Missouri	5,355	7,287	7,612	9,080	11,330	14,146	15,811	20,797
Montana	943	1,062	1,049	1,128	1,591	1,785	1,685	1,865
Nebraska	1,378	2,328	3,770	3,546	4,729	6,283	7,242	8,559
Nevada	1,891	3,023	3,130	3,437	3,572	4,269	4,286	5,537
New Hampshire	847	1,019	1,483	2,198	2,576	3,237	3,292	3,825
New Jersey	21,677	28,578	33,260	36,082	42,898	49,548	43,950	65,509
New Mexico	1,437	2,147	2,674	3,200	3,310	3,512	4,347	5,608
New York	61,665	63,658	77,830	86,437	101,862	121,400	137,481	121,064
North Carolina	5,721	8,705	11,150	12,293	15,314	17,000	18,234	25,951
North Dakota	702	1,024	1,210	1,246	1,591	1,893	2,071	2,256
Ohio	11,581	18,307	18,610	19,824	24,502	25,343	31,993	28,784
Oklahoma	2,771	4,896	6,128	6,117	6,336	7,297	7,384	8,651
Oregon	7,475	11,569	11,300	11,032	9,826	10,987	13,267	13,985
Pennsylvania	19,639	29,943	34,527	42,962	55,596	53,290	60,842	60,040
Puerto Rico	862	1,654	2,868	3,374	4,543	4,223	3,495	4,156
Rhode Island	1,079	1,584	2,033	2,141	2,456	2,685	3,569	4,052
South Carolina	1,777	2,215	2,353	2,887	6,511	9,189	11,150	12,522
South Dakota	1,060	1,026	1,175	1,198	1,335	1,630	2,118	2,358
Tennessee	3,046	5,504	6,420	7,041	8,175	9,482	12,507	12,389
Texas	11,733	14,256	16,492	15,071	13,960	21,522	23,522	29,733
Utah	3,094	4,982	5,629	6,789	8,609	10,085	10,379	10,453
Vermont	649	891	812	958	1,430	1,983	1,956	2,116
Virginia	4,787	7,038	7,645	7,668	8,801	15,698	861	824
Virgin Islands	483	323	217	319	715	954	26,363	31,738
Washington	10,733	11,826	13,300	16,979	22,941	25,291	28,293	35,926
West Virginia	1,676	2,404	2,962	2,550	2,830	2,873	4,870	6,740
Wisconsin	7,562	11,375	15,211	20,662	21,999	25,388	24,959	31,512
Wyoming	160	278	380	373	749	766	696	910
Nationwide total	383,163	526,423	611,792	691,106	814,165	941,252	1,058,650	1,166,130

[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 18.—TOTAL CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, SELECTED FISCAL YEARS 1978–88

State	1978	1979	1981	1982	1983	1984	1985	1986	1987	1988[1]
U.S. ratio	3.35	3.48	3.09	2.89	2.93	3.29	3.[illegible]1	3.45	3.68	3.95
Alabama	.75	1.48	.89	1.14	.95	1.11	2.00	2.45	2.69	2.50
Alaska	3.19	1.80	2.45	2.68	2.42	2.39	2.26	2.61	3.05	3.46
Arizona	.88	3.18	1.88	3.05	1.79	2.18	2.15	1.46	2.21	2.11
Arkansas	1.00	1.64	1.33	1.18	1.63	1.63	1.90	2.62	2.94	2.94
California	2.15	2.65	2.00	2.19	2.00	2.31	2.32	2.37	2.52	2.75
Colorado	1.78	1.04	2.02	2.55	2.15	1.72	2.08	1.89	1.90	1.99
Connecticut	4.20	4.22	3.78	3.92	3.30	3.36	3.38	3.49	2.91	2.64
Delaware	7.14	6.82	2.76	3.57	2.45	4.64	5.62	2.46	3.07	2.62
District of Columbia	.73	.66	.59	.60	.71	.90	1.06	.92	1.04	1.21
Florida	1.20	1.49	1.64	1.44	1.21	2.43	2.10	2.12	1.97	2.28
Georgia	2.22	1.72	1.74	1.34	1.64	1.80	2.23	2.59	3.16	2.88
Guam		1.48	.92	1.16	1.24	1.52	1.46	1.39	1.53	1.62
Hawaii	1.71	3.66	2.79	2.66	2.72	2.37	2.38	2.26	3.10	3.62
Idaho	2.10	2.35	2.24	2.64	2.19	1.86	1.93	3.58	4.06	3.79
Illinois	2.10	1.55	.95	1.30	1.96	2.31	2.14	2.40	2.51	2.68
Indiana	2.42	2.13	2.01	1.91	3.07	3.29	3.79	4.82	5.22	5.49
Iowa	3.49	3.07	3.71	4.30	4.92	5.69	5.92	6.77	6.22	6.36
Kansas	3.01	2.19	1.80	2.06	1.90	2.32	2.05	2.15	2.58	2.51
Kentucky	1.14	1.21	2.45	2.07	2.57	2.75	2.68	2.52	2.59	2.44
Louisiana	1.82	1.79	1.90	2.12	2.00	1.96	2.13	2.21	2.28	2.60
Maine	3.40	3.72	3.05	2.84	3.48	3.75	3.98	3.74	3.75	4.01
Maryland	2.14	2.55	2.52	3.94	4.72	4.15	3.86	3.77	2.86	3.31
Massachusetts	5.12	5.42	3.71	3.85	3.65	3.55	3.57	3.50	3.40	4.09
Michigan	9.50	10.09	10.06	6.57	6.62	6.86	7.62	8.33	9.50	8.80
Minnesota	2.15	2.30	2.32	2.31	2.59	2.94	2.91	3.02	3.51	3.59
Mississippi	.87	1.06	1.28	1.12	1.66	1.77	2.02	2.29	3.36	3.06
Missouri	.89	1.09	1.70	2.44	2.00	2.64	3.24	3.89	3.83	4.22
Montana	1.58	1.29	1.60	1.67	2.14	2.27	2.46	2.59	3.16	2.97
Nebraska	2.10	1.79	4.65	4.54	5.65	5.69	6.32	5.44	5.20	5.02
Nevada	1.83	1.84	1.33	1.51	1.62	1.91	2.04	2.10	2.30	1.95
New Hampshire	4.05	2.47	2.29	3.12	5.29	5.16	4.96	4.39	5.33	4.93
New Jersey	4.16	4.37	3.67	3.96	3.97	4.55	4.67	4.64	5.59	4.11
New Mexico	1.17	1.17	1.28	1.30	1.44	1.71	1.90	2.27	1.99	1.79
New York	1.75	2.21	2.23	1.95	2.02	2.03	1.96	1.83	1.96	2.46
North Carolina	1.50	1.60	1.98	2.00	2.51	2.65	2.94	3.26	3.83	3.32
North Dakota	1.83	2.45	1.89	1.91	2.19	2.31	2.29	2.46	2.65	3.14
Ohio	2.50	1.97	1.72	1.66	1.76	1.95	3.38	4.41	5.65	10.83
Oklahoma	.76	.66	.66	.64	.86	1.36	1.46	1.78	2.22	2.48
Oregon	9.48	11.84	9.13	4.13	3.45	3.01	4.05	4.47	4.03	4.27
Pennsylvania	9.14	9.51	7.43	7.40	6.65	8.37	6.68	7.78	7.48	8.51
Puerto Rico	.92	2.22	1.49	6.06	9.48	24.61	11.95	14.02	18.93	17.60
Rhode Island	3.51	3.31	2.38	2.65	3.36	3.36	3.52	3.90	3.34	3.65
South Carolina	2.38	1.99	2.40	2.61	2.58	2.49	1.70	2.37	3.01	3.23
South Dakota	.99	1.33	1.72	1.81	2.38	2.33	2.36	2.74	2.92	3.50
Tennessee	2.49	2.95	1.84	2.72	2.71	3.17	2.88	3.31	3.07	4.09
Texas	.74	.70	.82	.84	1.19	1.77	2.17	2.01	2.60	2.81
Utah	1.99	2.14	1.95	2.12	2.00	2.01	1.95	2.21	2.39	2.86
Vermont	2.24	2.23	2.47	4.01	2.95	2.44	2.58	2.34	2.96	3.31
Virgin Islands	.40	.54	1.33	3.03	2.14	3.48	3.27	2.14	3.51	4.16
Virginia	.72	1.92	1.41	1.60	1.78	1.74	1.85	1.57	2.23	2.39
Washington	2.96	2.52	2.69	2.75	2.45	2.43	2.48	2.42	2.56	2.48
West Virginia	.74	.95	.98	.89	1.35	1.52	1.66	1.98	2.00	2.16
Wisconsin	3.80	4.53	3.71	2.84	2.71	3.25	3.73	4.78	6.20	6.01
Wyoming	3.18	3.25	2.81	2.31	2.72	2.58	1.64	3.27	4.64	4.91

[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 19.—AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–88

State	1980	1981	1982	1983	1985	1986	1987	1988 [1]
Alabama	1.22	0.89	1.14	0.85	1.16	1.09	1.01	.89
Alaska	.26	.32	.38	.44	.43	.57	.75	.98
Arizona	.27	.26	.37	.25	.27	.27	.53	.42
Arkansas	.75	.73	.64	1.01	1.20	1.43	1.59	1.51
California	1.05	1.00	1.21	1.08	1.17	1.21	1.27	1.36
Colorado	.68	.74	.90	1.17	1.06	1.11	.94	.93
Connecticut	2.05	2.00	2.25	1.73	1.66	1.67	1.34	1.15
Delaware	1.68	.80	.95	.69	2.02	.80	.92	.80
District of Columbia	.48	.42	.42	.49	.59	.49	53	.56
Florida	1.11	1.19	1.01	.66	1.21	.95	.81	.74
Georgia	1.38	1.56	1.14	1.38	1.63	1.50	1.66	1.26
Guam	.79	.72	.74	.82	.95	.78	.73	.72
Hawaii	1.41	1.15	1.08	1.21	1.05	.98	1.10	1.55
Idaho	1.99	1.82	2.02	1.77	1.43	1.57	1.52	1.30
Illinois	1.07	.84	1.02	1.16	1.09	1.07	1.08	1.04
Indiana	1.66	1.65	1.53	2.61	2.77	3.04	3.26	2.69
Iowa	2.69	2.62	2.91	3.29	4.11	4.34	3.56	3.22
Kansas	1.35	1.37	1.67	1.50	1.75	1.35	1.41	1.02
Kentucky	.82	.72	.53	.82	1.01	1.01	.93	1.05
Louisiana	.86	.79	.88	.75	.81	.80	.90	1.05
Maine	2.78	2.54	2.28	2.86	2.97	2.85	2.60	2.48
Maryland	1.27	1.14	1.09	1.70	1.30	1.24	.96	.90
Massachusetts	3.12	2.68	2.44	2.04	1.68	1.61	1.43	1.78
Michigan	2.91	2.88	2.77	2.36	2.50	2.46	2.28	2.00
Minnesota	1.36	1.57	1.41	1.48	1.52	1.49	1.58	1.47
Mississippi	1.14	1.16	1.00	1.55	1.41	1.15	1.66	1.45
Missouri	.78	.88	1.63	1.27	1.69	1.32	1.49	1.29
Montana	.83	.98	1.18	1.63	2.01	1.92	2.00	1.78
Nebraska	1.56	1.30	.84	1.04	1.24	.93	.85	.75
Nevada	.28	.29	.48	.53	.48	.67	.62	.55
New Hampshire	2.09	2.18	1.55	1.21	.98	.72	.83	.74
New Jersey	1.24	1.12	1.01	1.14	1.19	1.17	1.34	.98
New Mexico	.76	.89	.83	.90	1.13	1.38	.95	.78
New York	.75	.75	.70	.79	.78	.68	.74	.92
North Carolina	1.29	1.35	1.15	1.53	1.54	1.64	1.82	1.45
North Dakota	1.68	1.51	1.46	1.61	1.67	1.65	1.70	1.85
Ohio	1.65	1.67	1.62	1.68	1.94	2.09	2.09	2.44
Oklahoma	.40	.46	.43	.60	1.04	.99	.97	1.00
Oregon	1.40	1.15	1.46	1.15	1.44	1.39	1.11	1.10
Pennsylvania	1.35	1.25	1.18	1.10	1.13	1.40	1.28	1.44
Puerto Rico	.62	.43	.24	.27	.34	.41	.52	.41
Rhode Island	2.52	2.29	1.90	1.97	2.09	2.20	1.72	1.83
South Carolina	2.04	2.00	2.00	2.08	1.19	1.15	1.19	1.01
South Dakota	1.29	1.19	1.22	1.81	1.73	1.64	1.40	1.51
Tennessee	.92	.64	.92	.79	.72	1.03	.97	1.51
Texas	.49	.58	.42	.72	1.14	.82	.84	.92
Utah	1.45	1.63	1.79	1.71	1.33	1.20	1.13	1.26
Vermont	1.87	2.18	3.74	2.74	2.21	1.84	2.14	2.26
Virgin Islands	.28	.47	.82	.44	.29	.22	.28	.35
Virginia	1.33	1.24	1.36	1.53	1.58	.87	.59	.57
Washington	1.51	1.63	1.66	1.56	1.40	1.32	1.36	1.23
West Virginia	.96	.92	.84	1.30	1.61	1.86	1.16	.75
Wisconsin	2.34	2.90	2.11	1.92	2.21	2.21	2.30	1.96
Wyoming	2.29	1.93	1.63	2.12	1.06	1.67	2.14	2.09
Nationwide total	1.30	1.27	1.28	1.27	1.34	1.30	1.28	1.27

[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 20.—NON-AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–88

State	1980	1981	1982	1983	1984	1985	1986	1987	1988 [1]
Alabama	0.00	0.00	0.00	0.09	0.30	0.83	1.36	1.68	1.61
Alaska	1.82	2.13	2.30	1.97	1.99	1.83	2.04	2.29	2.47
Arizona	1.81	1.62	2.69	1.55	1.84	1.87	1.17	1.68	1.69
Arkansas	.68	.59	.53	.62	.55	.70	1.20	1.35	1.44
California	1.10	1.00	.98	.92	1.08	1.15	1.16	1.26	1.38
Colorado	.40	1.28	1.65	.98	.70	1.01	.79	.95	1.06
Connecticut	1.99	1.78	1.67	1.56	1.65	1.73	1.82	1.56	1.49
Delaware	4.71	1.97	2.63	1.76	2.97	3.60	1.66	2.15	1.83
District of Columbia	.14	.16	.18	.22	.39	.47	.43	.51	.65
Florida	.16	.45	.42	.55	.69	.90	1.17	1.16	1.55
Georgia	.18	.18	.20	.25	.37	.59	1.01	1.50	1.62
Guam	.01	.20	.42	.42	.59	.51	.61	.80	.90
Hawaii	2.02	1.63	1.58	1.51	1.33	1.32	1.27	1.99	2.06
Idaho	.52	.42	.62	.41	.34	.49	2.01	2.55	2.50
Illinois	.11	.11	.28	.80	.99	1.04	1.33	1.42	1.64
Indiana	.26	.36	.39	.46	.44	1.02	1.77	1.97	2.80
Iowa	.69	1.09	1.40	1.64	1.82	1.81	2.43	2.67	3.14
Kansas	.31	.42	.39	.41	.59	.30	.80	1.17	1.50
Kentucky	2.26	1.73	1.54	1.74	1.96	1.67	1.51	1.66	1.39
Louisiana	1.07	1.11	1.23	1.25	1.22	1.32	1.41	1.38	1.55
Maine	.38	.51	.56	.62	.73	1.01	1.04	1.15	1.53
Maryland	1.28	1.38	2.85	3.02	2.84	2.56	2.53	1.90	2.41
Massachusetts	1.16	1.03	1.41	1.61	1.74	1.89	1.88	1.98	2.31
Michigan	7.96	7.18	3.80	4.26	4.46	5.12	5.87	7.22	6.80
Minnesota	.72	.75	.90	1.11	1.33	1.39	1.53	1.93	2.12
Mississippi	.10	.12	.12	.12	.13	.61	1.14	1.71	1.61
Missouri	.74	.82	.81	.73	1.11	1.55	2.56	2.34	2.93
Montana	.69	.62	.49	.52	.49	.45	.67	1.17	1.19
Nebraska	.30	3.35	3.70	4.62	4.68	5.08	4.52	4.35	4.28
Nevada	.98	1.04	1.02	1.09	1.39	1.55	1.43	1.67	1.40
New Hampshire	.08	.11	1.56	4.08	4.09	3.98	3.67	4.50	4.18
New Jersey	2.90	2.55	2.95	2.83	3.30	3.47	3.47	4.25	3.13
New Mexico	.34	.39	.47	.54	.62	.77	.89	1.05	1.01
New York	1.47	1.47	1.25	1.22	1.27	1.18	1.15	1.22	1.54
North Carolina	.28	.62	.85	.98	1.17	1.40	1.62	2.01	1.87
North Dakota	.43	.38	.45	.57	.70	.62	.82	.95	1.29
Ohio	.06	.05	.05	.07	.08	1.43	2.31	3.56	8.39
Oklahoma	.19	.20	.21	.26	.35	.42	.79	1.25	1.47
Oregon	8.15	7.98	2.68	2.30	2.03	2.61	3.08	2.92	3.17
Pennsylvania	6.70	6.18	6.22	5.56	6.89	5.55	6.39	6.20	7.07
Puerto Rico	1.56	1.05	5.82	9.21	24.26	11.61	13.61	18.42	17.19
Rhode Island	.10	.09	.74	1.39	1.25	1.43	1.70	1.61	1.82
South Carolina	.39	.40	.61	.50	.52	.51	1.22	1.83	2.22
South Dakota	.38	.53	.59	.56	.53	.64	1.10	1.52	1.99
Tennessee	1.55	1.20	1.81	1.92	2.25	2.16	2.28	2.10	2.58
Texas	.19	.23	.42	.47	.83	1.03	1.19	1.76	1.89
Utah	.31	.32	.33	.29	.42	.62	1.01	1.26	1.60
Vermont	.35	.29	.27	.21	.18	.37	.50	.82	1.05
Virgin Islands	.46	.86	2.21	1.70	3.11	2.97	1.91	3.22	3.81
Virginia	.08	.17	.24	.24	.24	.27	.70	1.64	1.82
Washington	.85	1.06	1.09	.89	.89	1.08	1.09	1.20	1.24
West Virginia	.07	.06	.05	.05	.04	.05	.12	.84	1.41
Wisconsin	.65	.81	.73	.80	1.04	1.52	2.66	3.90	4.06
Wyoming	.96	.88	.68	.61	.82	.58	1.61	2.50	2.83
Nationwide total	1.88	1.82	1.61	1.66	1.91	1.97	2.15	2.40	2.68

[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 21.—CHILD SUPPORT COLLECTIONS PER DOLLAR OF ADMINISTRATIVE EXPENDITURES, FISCAL YEAR 1988 [1]

State	Total collections/total expenditures	AFDC collections/total expenditures	Non-AFDC collections/total expenditures
Alabama	2.50	0.89	1.61
Alaska	3.46	.98	2.47
Arizona	2.11	.42	1.69
Arkansas	2.94	1.51	1.44
California	2.75	1.36	1.38
Colorado	1.99	.93	1.06
Connecticut	2.64	1.15	1.49
Delaware	2.62	.80	1.83
District of Columbia	1.21	.56	.65
Florida	2.28	.74	1.55
Georgia	2.88	1.26	1.62
Guam	1.62	.72	.90
Hawaii	3.62	1.55	2.06
Idaho	3.79	1.30	2.50
Illinois	2.68	1.04	1.64
Indiana	5.49	2.69	2.80
Iowa	6.36	3.22	3.14
Kansas	2.51	1.02	1.50
Kentucky	2.44	1.05	1.39
Louisiana	2.60	1.05	1.55
Maine	4.01	2.48	1.53
Maryland	3.31	.90	2.41
Massachusetts	4.09	1.78	2.31
Michigan	8.80	2.00	6.80
Minnesota	3.59	1.47	2.12
Mississippi	3.06	1.45	1.61
Missouri	4.22	1.29	2.93
Montana	2.97	1.78	1.19
Nebraska	5.02	.75	4.28
Nevada	1.95	.55	1.40
New Hampshire	4.93	.74	4.18
New Jersey	4.11	.98	3.13
New Mexico	1.79	.78	1.01
New York	2.46	.92	1.54
North Carolina	3.32	1.45	1.87
North Dakota	3.14	1.85	1.29
Ohio	10.83	2.44	8.39
Oklahoma	2.48	1.00	1.47
Oregon	4.27	1.10	3.17
Pennsylvania	8.51	1.44	7.07
Puerto Rico	17.60	.41	17.19
Rhode Island	3.65	1.83	1.82
South Carolina	3.23	1.01	2.22
South Dakota	3.50	1.51	1.99
Tennessee	4.09	1.51	2.58
Texas	2.81	.92	1.89
Utah	2.86	1.26	1.60
Vermont	3.31	2.26	1.05
Virgin Islands	4.16	.35	3.81
Virginia	2.39	.57	1.82
Washington	2.48	1.23	1.24
West Virginia	2.16	.75	1.41
Wisconsin	6.01	1.96	4.06
Wyoming	4.91	2.09	2.83
Nationwide total	3.95	1.27	2.68

[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 22.—INCENTIVE PAYMENTS TO STATES AND LOCALITIES FOR AFDC COLLECTIONS, SELECTED FISCAL YEARS 1979–88

[In thousands of dollars]

State	1979	1981	1982	1983	1984	1985	1986	1987	1988 [1]
Alabama	801	628	704	1,234	1,578	3,024	1,560	1,800	2,437
Alaska	7	113	158	245	219	278	393	432	1,254
Arizona	79	148	157	198	254	191	570	780	910
Arkansas	247	385	412	672	634	749	755	1,052	1,355
California	13,868	9,296	13,891	13,102	30,730	31,713	21,224	23,344	24,670
Colorado	407	755	914	1,337	1,077	1,121	1,383	1,685	1,783
Connecticut	440	2,325	3,117	2,977	2,551	2,906	3,688	3,530	4,237
Delaware	23	300	294	341	420	462	484	654	772
District of Columbia	11	169	223	267	356	297	410	486	477
Florida	445	2,080	1,871	2,108	3,315	3,453	3,660	4,936	6,740
Georgia	384	1,078	1,195	1,685	1,783	2,312	1,891	2,611	3,755
Guam	403	2	2	4	3	29	41	30	38
Hawaii	234	497	413	524	706	700	678	750	766
Idaho	6	428	463	471	447	499	669	806	881
Illinois	414	1,936	2,527	2,807	2,896	2,767	5,298	5,672	7,289
Indiana	943	1,502	1,401	2,424	2,570	2,976	3,897	5,830	4,974
Iowa	1,456	2,106	2,458	3,184	2,580	2,804	3,444	3,493	5,470
Kansas	255	770	1,082	1,103	905	1,100	1,164	1,623	1,551
Kentucky	552	666	502	896	760	1,072	1,336	1,550	1,666
Louisiana	731	1,181	1,202	1,503	1,241	1,461	1,236	1,808	2,267
Maine	61	699	892	1,250	1,154	1,253	1,612	1,692	2,407
Maryland	662	2,131	2,052	3,896	2,849	3,089	3,488	4,502	5,584
Massachusetts	46	5,597	6,071	6,046	5,202	5,573	7,042	7,980	9,194
Michigan	12,815	11,550	13,717	13,408	14,522	14,582	22,500	25,336	24,784
Minnesota	1,834	2,737	4,383	3,826	3,454	3,677	5,048	5,548	5,835
Mississippi	2	59	95	310	223	366	662	853	1,442
Missouri	586	888	1,816	1,622	1,609	1,883	2,208	2,796	3,702
Montana	20	153	182	274	277	363	269	295	591
Nebraska	265	419	423	538	505	691	808	842	848
Nevada	74	125	186	224	175	154	402	482	571
New Hampshire	29	343	349	374	281	291	340	372	405
New Jersey	4,070	4,681	4,877	6,037	6,325	5,887	7,190	7,526	10,252
New Mexico	21	282	333	434	424	450	363	517	672
New York	8,787	7,163	8,193	10,308	8,248	9,498	10,166	10,536	12,974
North Carolina	1,021	1,724	1,898	2,801	2,528	2,809	3,922	4,182	6,910
North Dakota	191	219	251	284	276	315	277	339	486
Ohio	3,295	4,574	4,512	5,010	4,790	5,710	5,341	8,850	13,788
Oklahoma	42	326	387	547	672	787	730	866	1,129
Oregon	296	1,845	2,388	1,839	1,572	1,624	2,114	2.168	2,933
Pennsylvania	4,701	5,399	5,670	6,577	7,122	6,788	8,076	9,166	11,857
Puerto Rico	4	73	92	127	136	167	224	270	436
Rhode Island	53	505	552	619	570	613	918	1,001	1,427
South Carolina	328	354	512	698	994	1,015	1,392	1,800	2,531
South Dakota	45	118	183	378	249	227	308	375	583
Tennessee	493	568	835	782	772	716	1,192	1,408	1,732
Texas	188	1,114	959	1,609	1,602	1,878	2,950	2,940	3,999
Utah	596	1,238	1,509	1,791	1,397	730	1,911	1,446	1,546
Vermont	22	289	453	392	319	379	374	504	625
Virgin Islands	1	23	25	21	19	25	26	30	43
Virginia	262	1,130	1,502	1,728	1,414	1,658	1,473	2,096	2,318
Washington	202	2,817	3,236	3,878	3,419	3,673	4,128	4,504	6,889
West Virginia	31	389	369	492	463	538	303	363	1,048
Wisconsin	3,905	4,945	4,655	5,417	4,993	4,986	6,428	9,888	10,215
Wyoming	5	69	86	117	103	90	107	170	170
Nationwide total	66,255	90,911	144,781	158,098	133,682	144,781	158,073	184,515	223,219

[1] Preliminary data as of January 13, 1989.

Source: Office of Child Support Enforcement.

TABLE 23.—OUT-OF-WEDLOCK BIRTHS AND IV–D PATERNITIES: 1986

State	Births to unmarried women, 1986	IV–D paternities established, 1986	1986 paternities/1986 births
Alabama	15,385	6,727	43.7
Alaska	2,531	252	10.0
Arizona	15,598	986	6.3
Arkansas	8,246	7,144	86.6
California	127,683	25,118	19.7
Colorado	9,927	1,451	14.6
Connecticut	8,504	4,579	53.8
Delaware	2,621	1,986	75.8
District of Columbia	5,800	664	11.4
Florida	44,812	14,358	32.0
Georgia	26,701	12,323	46.2
Hawaii	3,718	836	22.5
Idaho	1,949	299	15.3
Illinois	47,843	10,820	22.6
Indiana	16,657	3,580	21.5
Iowa	5,825	1,853	31.8
Kansas	6,568	528	8.0
Kentucky	10,355	3,464	33.5
Louisiana	23,564	4,234	18.0
Maine	3,171	570	18.0
Maryland	21,198	8,167	38.5
Massachusetts	15,861	2,513	15.8
Michigan	26,620	17,737	66.6
Minnesota	10,721	3,646	34.0
Mississippi	14,228	1,964	13.8
Missouri	16,917	10,208	60.3
Montana	2,262	120	5.3
Nebraska	3,788	461	12.2
Nevada	2,637	503	19.1
New Hampshire	2,213	76	3.4
New Jersey	24,887	13,731	55.2
New Mexico	7,629	838	11.0
New York	77,535	16,929	21.8
North Carolina	21,323	10,014	47.0
North Dakota	1,398	830	59.4
Ohio	36,917	10,057	27.2
Oklahoma	9,426	430	4.6
Oregon	8,025	2,351	29.3
Pennsylvania	39,298	17,443	44.4
Rhode Island	2,656	98	3.7
South Carolina	14,304	2,538	17.7
South Dakota	2,036	426	20.9
Tennessee	16,767	7,021	41.9
Texas	54,240	900	1.7
Utah	3,575	1,103	30.9
Vermont	1,359	688	50.6
Virginia	19,538	2,039	10.4
Washington	13,745	2,018	14.7
West Virginia	4,530	194	4.3
Wisconsin	14,184	7,812	55.1
Wyoming	1,202	113	9.4
U.S. total	878,477	244,740	27.9

Sources: National Center for Health Statistics, Monthly Vital Statistics Report, vol. 37, no. 3, Supplement, July 12, 1988, page 29; U.S. Department of Health and Human Services, Office of Child Support Enforcement.

THE CHILD SUPPORT ENFORCEMENT REPORT CARD

On September 11, 1988, the Committee on Ways and Means issued a report card on the child support enforcement program. It had two parts. First, it assigned grades to the Federal Office of Child Support Enforcement based on a survey of State offices of child support enforcement. Second, it graded the States based on fiscal year 1987 administrative data in five areas: paternity establishment; child support collection; cost-effectiveness; interstate collections; and reducing AFDC costs.

The measures used to evaluate the States were:

(1) paternity establishment rate—the number of paternities established in the State for fiscal year 1987 divided by births to unmarried women in the State for 1985 (latest year available);

(2) child support collection rates—child support collections in the State divided by collections due in the State;

(3) cost-effectiveness—total collections in the State divided by administrative costs (less laboratory costs) in the State for fiscal year 1987;

(4) interstate collections—interstate collections by the State for fiscal year 1987 divided by the number of male immigrants to the State from other States in 1979 (the latest year available); and

(5) AFDC child support collections in the State divided by AFDC payments in the State for fiscal year 1987 and 20 percent of non-AFDC child support collections in the State divided by AFDC payments in the State for fiscal year 1987.

These data were standardized using a normal curve and each of the five areas was assigned a weight of 20 percent. The weighted average of the standardized scores was calculated and the grades for the States were assigned based on where their weighted, standard scores were on the normal curve. The grades on the curve were:

Top 10 percent:	A—Excellent
Next 25 percent:	B—Good
Next 30 percent:	C—Fair
Next 25 percent:	D—Poor
Bottom 10 percent:	F—Failing

Table 24 summarizes the grades for the Federal Office of Child Support Enforcement. The overall grade was a low C. The national office received a poor grade, but the Federal Government received good grades for the Federal Parent Locator Service (FPLS), certifying Federal income tax refund offset requests, and reviewing and approving State plans.

Table 25 summarizes the grades for the States. Four States received A's: Delaware, Michigan, New Jersey, and North Dakota. Failing grades were given to the District of Columbia, Mississippi, New Mexico, Oklahoma, Texas, and West Virginia.

TABLE 24.—GRADES FOR THE FEDERAL OFFICE OF CHILD SUPPORT ENFORCEMENT

[Overall Grade=C]

Activity	Grade
1. Establishing standards for State child support enforcement programs	C
2. Establishing minimum organizational and staffing requirements for State units	D
3. Reviewing and approving State plans	B
4. Conducting audits and evaluating State programs	C
5. Assisting States in establishing adequate reporting procedures and maintaining records of operations in each State.	D
6. Providing technical assistance to the States to help them establish effective programs.	C
7. Operating the Federal Parent Locator Service	B
8. Certifying child support obligations for collection by the Internal Revenue Service.	B
9. Reviewing and approving annually updated automatic data processing planning documents.	C
10. Overall, how would you grade your regional office?	C
11. Overall, how would you grade the national office?	D

TABLE 25.—STATE GRADES IN ALPHABETICAL ORDER

State	Grade	State	Grade
Alabama	B	Montana	D
Alaska	B	Nebraska	C
Arizona	B	Nevada	B
Arkansas	B	New Hampshire	B
California	C	New Jersey	A
Colorado	D	New Mexico	F
Connecticut	B	New York	C
Delaware	A	North Carolina	C
District of Columbia	F	North Dakota	A
Florida	D	Ohio	C
Georgia	C	Oklahoma	F
Guam	F	Oregon	B
Hawaii	D	Pennsylvania	B
Idaho	B	Puerto Rico	C
Illinois	C	Rhode Island	B
Indiana	C	South Carolina	C
Iowa	B	South Dakota	C
Kansas	D	Tennessee	C
Kentucky	D	Texas	F
Louisiana	D	Utah	B
Maine	B	Vermont	C
Maryland	D	Virginia	D
Massachusetts	B	Virgin Islands	D
Michigan	A	Washington	C
Minnesota	B	West Virginia	F
Mississippi	F	Wisconsin	C
Missouri	B	Wyoming	D

LEGISLATIVE CHANGES IN THE 100TH CONGRESS

During the second session of the 100th Congress, The Family Support Act of 1988 (P.L. 100–485) was enacted. It emphasized the duties of parents to work and support their children. The Act emphasized child support enforcement as the first line of defense against welfare dependence. It contained these provisions:

1. Guidelines for Child Support Award Amounts

Judges and other officials are required to use State guidelines for child support unless they are rebutted by a written finding that applying the guidelines would be unjust or inappropriate in a particular case. States must review guidelines for awards every 4 years. Beginning 5 years after enactment, States generally must review and adjust individual case awards every 3 years for AFDC cases. The same applies to other IV–D cases, except review and adjustment must be at the request of a parent.

2. Establishment of Paternity

States are required to meet Federal standards for the establishment of paternity. The standard relates to the percentage obtained by dividing the number of children in the State who are born out of wedlock, are receiving cash benefits or IV-D child support services, and for whom paternity has been established by the number of children who are born out of wedlock and are receiving cash benefits or IV-D child support services. To meet Federal requirements, this percentage in a State must: (1) be at least 50 percent; (2) be at least equal to the average for all States; or (3) have increased by 3 percentage points from fiscal year 1988 to 1991 and by 3 percentage points each year thereafter.

States are mandated to require all parties in a contested paternity case to take a genetic test upon request of any party.

The Federal matching rate for laboratory testing to establish paternity is set at 90 percent.

3. Disregard of Child Support

The child support enforcement disregard authorized under the Deficit Reduction Act of 1984 is clarified so that it applies to a payment made by the noncustodial parent in the month it was due even though it was received in a subsequent month.

4. Requirement for Prompt State Response

The Secretary of Health and Human Services is required to set time limits within which States must accept and respond to requests for assistance in establishing and enforcing support orders as well as time limits within which child support payments collected by the State IV-D agency must be distributed to the families to whom they are owed.

5. Requirement for Automated Tracking and Monitoring System

Every State that does not have a Statewide automated tracking and monitoring system in effect must submit an advance planning document that meets Federal requirements by October 1, 1991. The Secretary must approve each document within 9 months after submission. By October 1, 1995, every State must have an approved system in effect. Federal matching rates of 90 percent for this activity will expire after September 30, 1995.

6. Interstate Enforcement

A Commission on Interstate Child Support is established to hold one or more national conferences on interstate child support enforcement reform, and to report to Congress no later than October 1, 1990 on recommendations for improvements in the system and revisions in the Uniform Reciprocal Enforcement of Support Act.

7. Exclude Interstate Demonstration Grants in Computing Incentive Payments

Amounts spent by States for interstate demonstration projects are excluded from calculating the amount of the States' incentive payments.

8. Use of INTERNET System

The Secretaries of Labor and HHS are required to enter into an agreement to give the Federal Parent Locator Service prompt access to wage and unemployment compensation claims information useful in locating absent parents.

9. Wage Withholding

With respect to IV–D cases, each State must provide for immediate wage withholding in the case of orders that are issued or modified on or after the first day of the 25th month beginning after the date of enactment unless: (1) one of the parties demonstrates, and the court finds, that there is good cause not to require such withholding; or (2) there is a written agreement between both parties providing for an alternative arrangement. Present law requirements for mandatory wage withholding in cases where payments are in arrears apply to orders that are not subject to immediate wage withholding.

States are required to provide for immediate wage withholding for all support orders initially issued on or after January 1, 1994, regardless of whether a parent has applied for IV–D services.

10. Work and Training Demonstration Programs for Noncustodial Parents

The Secretary of HHS is required to grant waivers to up to 5 States to allow them to provide services to noncustodial parents under the JOBS program. No new power is granted to the States to require participation by noncustodial parents.

11. Data Collection and Reporting

The Secretary of HHS is required to collect and maintain State-by-State statistics on paternity determination, location of absent parent for the purpose of establishing a support obligation, enforcement of a child support obligation, and location of absent parent for the purpose of enforcing or modifying an established obligation.

12. Use of Social Security Number

Each State must, in the administration of any law involving the issuance of a birth certificate, require each parent to furnish his or her social security number (SSN), unless the State finds good cause for not requiring the parent to furnish it. The SSN shall not appear on the birth certificate, and the use of the SSN obtained through the birth record is restricted to child support enforcement purposes except under certain circumstances.

13. Notification of Support Collected

Each State is required to inform families receiving AFDC of the amount of support collected on their behalf on a monthly basis, rather than annually as provided under present law. States may provide quarterly notification if the Secretary of HHS determines that monthly reporting imposes an unreasonable administrative burden. This provision is effective 4 years after the date of enactment.

TABLE 26.—CBO COST ESTIMATES FOR CHILD SUPPORT ENFORCEMENT AMENDMENTS IN THE FAMILY SUPPORT ACT OF 1988 (PUBLIC LAW 100–485)

[In millions of dollars]

	Fiscal year—				
	1990	1991	1992	1993	Total
Mandate income withholding	—	−25	−55	−90	−170
Mandate child support guidelines	−25	−70	−115	−160	−370
Mandate increases in paternity establishment	—	40	25	15	80
Mandate ADP for most States	2	7	7	7	23
Other	10	9	6	8	33
Total	−13	−39	−132	−220	−404

The Omnibus Budget Reconciliation Act of 1987 (P.L. 100–203) required States to provide child support enforcement services to all families with an absent parent who receive Medicaid and have assigned their support rights to the State, regardless of whether they are receiving AFDC.

LEGISLATIVE CHANGES IN THE 99TH CONGRESS

During the second session of the 99th Congress, Public Law 99–509 was enacted. Titled the Omnibus Budget Reconciliation Act of 1986, the new law included one child support enforcement amendment prohibiting the retroactive modification of child support awards. Under this new requirement, State laws must provide for either parent to apply for modification of an existing order with notice provided to the other parent. No modification is permitted before the date of this notification.

LEGISLATIVE CHANGES IN THE 98TH CONGRESS

In November 1983, the House of Representatives adopted H.R. 4325, the Child Support Enforcement Amendments, which had been developed by the Subcommittee on Public Assistance and Unemployment Compensation and approved by the Committee on Ways and Means. In August 1984, the amendments were signed into law. The new law strengthens the child support enforcement and paternity establishment program. It requires States to implement effective enforcement tools and provides incentives to the States to make available services to both AFDC and non-AFDC families. The main provisions of the Child Support Enforcement Amendments of 1984 (P.L. 98–378) are summarized below:

1. *Improved child support enforcement through requiring State laws and procedures.*—States are required to enact laws establishing the following procedures with respect to their IV–D cases:

A. Mandatory wage withholding for all families (AFDC and non-AFDC) if support payments are delinquent in an amount equal to 1 month's support. States must also allow absent parents to request withholding at an earlier date.

B. Imposing liens against real and personal property for amounts of overdue support.

C. Withholding of State tax refunds payable to a parent of a child receiving IV–D services, if the parent is delinquent in support payments.

D. Making available information regarding the amount of overdue support owed by an absent parent, to any consumer credit bureau, upon request of such organization.

E. Requiring individuals who have demonstrated a pattern of delinquent payments to post a bond, or give some other guarantee to secure payment of overdue support.

F. Establishing expedited processes within the State judicial system or under administrative procedures for obtaining and enforcing child support orders, and, at the option of the State, for determining paternity.

G. Notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient.

H. Permitting the establishment of paternity until a child's 18th birthday.

I. At the option of the State, providing that child support payments must be made through the agency that administers the State's income withholding system if either the custodial or noncustodial parent requests that they be made in this manner.

2. Federal matching of administrative costs.—The Federal matching share is gradually reduced from 70 percent as follows: 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter.

3. Federal incentive payments.—The prior incentive formula which gave States 12 percent of their AFDC collections (paid for out of the Federal share of the collections) is replaced with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment will be equal to 6 percent of the State's AFDC collections, and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, if their AFDC or non-AFDC collections exceed combined administrative costs for both AFDC and non-AFDC components of the program.

The total dollar amount of incentives paid for non-AFDC families may not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, thereafter the incentive paid for non-AFDC collections will be capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and any fiscal year thereafter.

4. Matching for automated management systems used in income withholding and other procedures.—The Act specifies that the 90 percent Federal matching rate that is currently available to States that elect to establish an automatic data processing and information retrieval system may be used, at the option of the State, for the development and improvement of the income withholding and other procedures required in the new law through the monitoring of child support payments, the maintenance of accurate records regarding the payment of child support, and the provision of prompt notice to appropriate officials with respect to any arrearages that occur. Also, the Act specifies that the 90 percent matching is available to pay for the acquisition of computer hardware.

5. Fees for services to non AFDC families.—States will be required to charge an application fee for non-AFDC cases not to exceed $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary to reflect changes in administrative costs. The State may charge the fee against the custodial parent, pay the fee out of State funds, or recover the fee from the noncustodial parent.

In addition, at the option of the State, a late payment fee equal to between 3 and 6 percent of the amount of overdue support may be charged to the noncustodial parents of AFDC and non-AFDC families. The State may not take any action which would have the effect of reducing the amount of support paid to the child and will collect the fee only after the full amount of the support has been paid to the child. The late payment fee provision is effective upon enactment.

6. Continuation of support enforcement for AFDC recipients whose benefits are being terminated.—States must provide that families whose eligibility for AFDC is terminated due to the receipt of (or an increase in) child support payments will be automatically transferred from AFDC to non-AFDC status under the IV–D program, without requiring application for IV–D services or payment of a fee.

7. Special project grants to promote improvement in interstate enforcement.—The Secretary is authorized to make demonstration grants to States which propose to undertake new or innovative methods of support collection in interstate cases. The authorization is $7 million in FY 1985, $12 million in FY 1986, and $15 million in FY 1987 and years thereafter.

8. Periodic review of State programs; modification of penalty.—The Director of the Federal Office of Child Support Enforcement is required to conduct audits at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and any subsequent consecutive failures.

9. Extension of sec. 1115 demonstration authority to the child support program.—The sec. 1115 demonstration authority is expanded to include the child support enforcement program under specified conditions.

10. Child support enforcement for certain children in foster care.—State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV–E, if an assignment of rights to support to the State has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments under the title IV-E foster care program.

11. Collection of spousal support.—Child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

12. Modification in content of annual report by the Secretary.—The present annual report information requirements are expanded to include data needed to evaluate State programs.

13. Requirement to publicize the availability of child support services.—States must frequently publicize, through public service announcements, the availability of child support enforcement services, together with information as to the application fee for such services and a telephone number or postal address to be used to obtain additional information.

14. State commissions on child support.—The Governor of each State is required to appoint a State Commission on Child Support. The Commission must include representation from all aspects of the child support system including custodial and non-custodial parents, the IV-D agency, the judiciary, the Governor, the legislature, child welfare and social services agencies, and others.

Each State commission is to examine the functioning of the State child support system with regard to securing support and parental involvement for both AFDC and non-AFDC children, including but not limited to such specific problems as: (1) visitation; (2) establishment of appropriate objective standards for support; (3) enforcement of interstate obligations; and (4) additional Federal and State legislation needed to obtain support for all children.

15. Requirement to include medical support as part of any child support order.—The Secretary of Health and Human Services is required to issue regulations to require State agencies to petition to include medical support as part of any child support order whenever health care coverage is available to the absent parent at a reasonable cost. The regulations must also provide for improved information exchange between the State IV-D agencies and the medicaid agencies with respect to the availability of health insurance coverage.

16. Increased availability of Federal parent locator services to State agencies.—The prior law requirement that the States exhaust all State child support locator resources before they request the assistance of the Federal Parent Locator Service is repealed.

17. Extension of medicaid eligibility when support collection results in termination of AFDC eligibility.—If a family loses AFDC eligibility as the result (wholly or partly) of increased collection of support payments under the IV-D program, the State must continue to provide medicaid benefits for 4 calendar months beginning with the month of ineligibility. (The family must have received AFDC in at least 3 of the 6 months immediately preceding the month of ineligibility.)

18. Guidelines for determining support obligations.—Each State must develop guidelines to be used at the discretion of the court or administrative entity in determining support obligations.

19. Availability of social security numbers for purposes of child support enforcement.—The absent parent's social security number may be disclosed to child support agencies both through the Federal Parent Locator Service and by the IRS.

20. Collection of overdue support from Federal tax refunds.—Prior law requires the Secretary of the Treasury, upon receiving notice from a State child support agency that an individual owes past due support which has been assigned to the State as a condition of AFDC eligibility, to withhold from any tax refunds due that individual an amount equal to any past due support. The act extends this requirement to provide for withholding of refunds on behalf of non-AFDC families, under specified conditions.

21. Wisconsin child support initiative.—The Secretary of HHS is required to grant waivers to the State of Wisconsin to allow it to implement its proposed child support initiative in all or parts of the State as a replacement for the AFDC and child support programs. The State must meet specified conditions and give specific guarantees with respect to the financial well-being of the children involved.

22. Sense of the Congress that State and local governments should focus on the problems of child custody, child support, and related domestic issues.—The act incorporates the language of S. Con. Res. 84 urging State and local governments to focus on the vital issues of child support, child custody, visitation rights, and other related domestic issues that are within the jurisdictions of such governments.

Cost estimates for the major provisions of Public Law 98-378 appear below:

TABLE 27.—CBO ESTIMATES FOR CHILD SUPPORT ENFORCEMENT AMENDMENTS OF 1984 (PUBLIC LAW 98-378)

	Fiscal year—				
	1984	1985	1986	1987	Total
Alter incentive payments to States			15	15	30
Reduce Federal matching to 68 percent in fiscal year 1988; 66 percent in fiscal year 1990					0
Require application fees; optional late payment fees		−5	−10	−10	−25
Mandate State enforcement techniques		−15	−25	−25	−65
Require IRS tax intercept for non-AFDC families thru fiscal year 1989		25	20	10	55
Authorize funds for interstate projects		7	12	15	34
Provide Medicaid for 4 months for families losing AFDC due to child support collection through fiscal year 1988	5	25	25	30	85
Other provisions		15	20	10	45
Impact of H.R. 4325 on CSE case levels:					
CSE expenditures		10	30	55	95
Offsetting effects on public assistance		−5	−20	−30	−55
Total	5	57	67	70	199

Note: The cost of disregarding the first $50 of child support payments is shown in the AFDC section.

The Tax Reform Act of 1984 (Public Law 98-369) was also enacted during the 98th Congress and included two tax provisions pertaining to alimony and child support.

Under prior law, alimony was deductible by the payor and includible in the income of the payee. The new law revises the rules relating to the definition of alimony. Generally, only cash payments that will terminate on the death of the payee spouse will qualify as alimony. Alimony payments, if in excess of $10,000 per year, generally must be payable for at least 6 years and must not decline by more than $10,000. The prior law requirement that the payment be based on a legal support obligation has been repealed and payors are now required to furnish to the IRS the social security number of the payee spouse. A $50 penalty for failure to do so will be imposed. The provision is effective for divorce or separation agreements or orders executed after 1984.

The new law also provides that the $1,000 dependency exemption for a child of divorced or separated parents generally will be allocated to the custodial parent unless the custodial parent signs a written declaration that he or she will not claim the exemption for the year. Each parent may claim the medical expenses that he or she pays for the child, for purposes of computing the medical expense deduction. The provision is effective for taxable years beginning after 1984.

LEGISLATIVE CHANGES IN THE 97TH CONGRESS

The 97th Congress enacted child support legislation in 1981 and 1982 which had the effect of reducing Federal outlays, as shown below. Estimates for savings were made by the Congressional Budget Office.

Changes included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) and the Tax Equity and Fiscal Responsibility Act of 1983 (Public Law 97-248) are:

TABLE 28.—CBO ESTIMATES FOR PUBLIC LAW 97-35 AND PUBLIC LAW 97-248

[In millions of dollars]

Provision	Fiscal year—				
	1982	1983	1984	1985	1986
Public Law 97-35:					
Collection of past-due child and spousal support from Federal tax refunds	−55	−70	−75	−75	−75
Collection of support for certain spouses	−20	−20	−20	−20	−20
Require absent parents to pay fee for services to non-AFDC families	0	0	0	0	0
Child support obligations owed on behalf of AFDC families not discharged in bankruptcy	−15	−18	−23	−29	−36
Require States to intercept unemployment benefits to enforce child support obligations	−17	−17	−17	−17	−17
Total	−107	−125	−135	−141	−148

	Fiscal year—				
	1983	1984	1985	1986	1987
Public Law 97-248:					
Give States the option of imposing a fee for services to non-AFDC families	−12	−16	−11	−13	−14
Require allotments from pay for support owed by members of the uniformed services	−7	−9	−10	−10	−10
Reimbursement of State agency in initial month of ineligibility for AFDC	−3	−4	−4	−5	−5
Reduce Federal incentive payments and Federal matching percentage	−40	−91	−101	−111	−116
Total	−62	−120	−126	−139	−145

Section 9. SSI Program Description

The Supplemental Security Income (SSI) program is a federally administered income assistance program authorized by title XVI of the Social Security Act. Established by the 1972 amendments to the Act (Public Law 92-603) and begun in 1974, SSI provides monthly cash payments in accordance with uniform, nationwide eligibility requirements to needy aged, blind and disabled persons. The SSI program replaced the former Federal grants to the States for old-age assistance, aid to the blind and aid to the permanently disabled. These grants continue in Guam, Puerto Rico and the Virgin Islands. SSI, however, operates in the Northern Mariana Islands.

BASIC ELIGIBILITY

To qualify for SSI payments, a person must satisfy the program criteria for age, blindness or disability. The aged are defined as persons 65 years and older. The blind are individuals with 20/200 vision or less with the use of a correcting lens in the person's better eye, or those with tunnel vision of 20 degrees or less. Disabled individuals are those unable to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment expected to result in death or that has lasted, or can be expected to last, for a continuous period of at least 12 months. Also, a child under age 18 who has an impairment of comparable severity with that of an adult may be considered disabled.

As explained later, disabled SSI recipients who lose eligibility for regular SSI benefits and for Medicaid because their earnings have exceeded the "substantial gainful activity" earnings test, but who continue to be medically disabled, can continue to receive cash assistance and Medicaid under certain conditions.

SSI BENEFIT STANDARDS

Individuals and couples applying for or receiving SSI benefits are determined to be eligible if their countable income does not exceed certain income benefit standards.

Regular Federal SSI benefit standard

The regular Federal SSI benefit standard for an individual for 1989 is $368 a month and $553 for a couple. As is discussed later, most States supplement the regular Federal SSI benefit standard. The result is a combined regular Federal SSI/State supplementation benefit standard against which countable income is compared in determining eligibility and benefit amount. However, many States limit their supplementation to certain categories of individuals based on specific indicators of need—especially special housing needs. In September 1988, 371,611 persons, or 8.4 percent of all SSI recipients, were eligible for benefits only because State supplementation increased the benefit standard.

The regular Federal SSI benefit standards are indexed to the Consumer Price Index (CPI) and by the same percentage as Social Security benefits. This occurs through a reference in the SSI law to the Social Security cost-of-living adjustment (COLA) provision. Prior to the Social Security Amendments of 1983 (Public Law 98-21), the SSI and Social Security cost-of-living increases occurred in benefits paid in July. Public Law 98-21 delayed the Social Security and SSI COLA's from July 1983 to January 1984. However, in lieu of a COLA increase in the SSI benefit standard in July 1983, the regular Federal SSI benefit standard was increased in July 1983 by $20 a month for an individual and $30 a month for a couple. Table 1 shows the regular Federal SSI benefit standard from the beginning of the SSI program until the present time.

Living in the household of another

The SSI law provides that if an SSI applicant or recipient is "living in another person's household and receiving support and maintenance in-kind from such person", the value of such in-kind assistance is presumed to equal one-third of the regular Federal SSI benefit standard. The Federal SSI benefit standard applicable to such individual or couple is two-thirds of the regular Federal SSI benefit standard. As shown in table 1, the Federal SSI benefit standard for those determined to be living in the household of another is $245.34 for an individual and $368.67 for a couple. These amounts are increased annually since they are two-thirds of the regular Federal SSI benefit standard.

By regulation, the Social Security Administration has established certain criteria for determining whether this benefit standard should be applied. If an individual actually owns or rents the living quarters or contributes their pro rata share to the household's expenses, this lower benefit standard does not apply. In September 1988, 5.7 percent, or 251,036 SSI recipients, had their benefits determined on the basis of this "one-third reduction" benefit standard. Sixty-eight percent of those recipients were receiving benefits on the basis of disability (see table 2).

Of the 23 States that supplement the regular Federal SSI benefit standard, 10 States provide the same amount of supplementation for those whose Federal SSI benefit amount is determined on the basis of the "one-third reduction" Federal standard. Six States provide a higher State supplementation for such recipients and in seven States the amount of State supplementation is less. In two States, a higher State supplement is provided for the blind and a lower State supplement is provided for the aged.

Medicaid institution/personal needs allowance

When an individual enters a hospital or other medical institution in which a major part of a bill is paid by the Medicaid program, his monthly SSI benefit standard is reduced to $30, beginning with the first full calendar month the individual is in such institution. This Personal Needs Allowance (PNA) is intended to take care of small personal expenses, with the cost of maintenance and medical care being provided through Medicaid. The Federal PNA benefit standard of $25 was increased to $30 a month on July 1, 1988—the first increase since the SSI program began in 1974. The annual cost-of-living increase for SSI does not apply to the personal needs allowance Federal benefit standard. The 1987 Budget Reconciliation Act does, however, provide that if a physician certifies that a person's stay in such a medical institution is not likely to exceed 3 months and the person needs to continue to maintain a home to return to, that the SSI benefits will not be reduced and he or she will continue on the full SSI benefit standard for up to 3 months.

Approximately 187,000, or 4.2 percent, of SSI recipients received benefits in September 1988 on the basis of this benefit standard. For those individuals whose income from non-SSI sources exceeds the $30 benefit standard (including those who previously, when they were not living in a medical institution, were receiving some SSI because their Social Security benefits are less than the regular SSI benefit standard), Medicaid regulations require States to allow such individuals (and other non-SSI Medicaid eligibles) to retain no less than $30 a month of their income as a "personal needs allowance" when their income is applied, along with Medicaid reimbursement, to pay for their institutional medical care. Approximately 600,000 additional individuals in nursing homes are affected by this requirement.

Approximately 16 States have exercised their option to supplement this Federal SSI benefit standard. Prior to the 1985 Budget Reconciliation Act, SSI regulations would not allow for Federal administration of the State supplements of these payments. An amendment included in that legislation now requires the Social Security Administration, at the request of a State, to administer such State supplementary payments. As of July 1987, California, Massachusetts, and Maine had opted for Federal administration. Approximately 24 States allow some or all of those individuals affected by the Medicaid personal needs allowance regulations to retain more than $30 a month.

Another benefit standard affecting some persons involves Federal payments to an individual who was transferred to SSI from a former State program of aid to the aged, blind or disabled. These payments are increased by $184 monthly to take into account an "essential person" living in the household. An essential person is generally an ineligible spouse or relative whose needs were considered in determining the requirements of an eligible individual under the former State program but who is not eligible for SSI. Some States have categories of State supplementation similar to the "essential persons" category for individuals transferred from the pre-SSI program.

TABLE 1.—FEDERAL SSI BENEFIT STANDARDS

[In dollars]

Period	Eligibility status					
	Single		Couple		Medicaid facilities	Essential person
	Own household	Another household	Own household	Another household		
Jan. 1974–June 1974	140.00	93.34	210.00	140.00	25.00	70.00
July 1974–June 1975	146.00	97.34	219.00	146.00	25.00	73.00
July 1975–June 1976	157.70	105.14	236.60	154.74	25.00	78.90
July 1976–June 1977	167.80	111.87	251.80	167.87	25.00	84.00
July 1977–June 1978	177.80	118.54	266.70	177.80	25.00	89.00
July 1978–June 1979	189.40	126.27	284.10	189.40	25.00	94.80
July 1979–June 1980	208.20	138.80	312.30	208.20	25.00	104.20
July 1980–June 1981	238.00	158.67	357.00	238.00	25.00	119.20
July 1981–June 1982	264.70	176.47	397.00	264.67	25.00	132.60
July 1982–June 1983	284.30	189.54	426.40	284.27	25.00	142.50
July 1983–Dec. 1983	304.30	202.88	456.40	304.27	25.00	152.50
Jan. 1984–Dec. 1984	[1] 314.00	209.34	[1] 472.00	314.67	25.00	157.00
Jan. 1985–Dec. 1985	325.00	216.67	488.00	325.34	25.00	163.00
Jan. 1986–Dec. 1986	336.00	224.00	504.00	336.00	25.00	168.00
Jan. 1987–Dec. 1987	340.00	226.67	510.00	340.00	25.00	170.00
Jan. 1988–Dec. 1988	354.00	236.00	532.00	354.67	[2] 25.00	177.00
Jan. 1989–Dec. 1989	368.00	245.34	553.00	368.67	30.00	184.00

[1] Cost-of-living adjustments to Federal SSI benefit levels are rounded to the next lower whole dollar beginning with the increase effective January 1984.

[2] Personal needs allowance for residents of Medicaid institutions increased to $30 effective July 1, 1988.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 2.—NUMBER AND PERCENTAGE DISTRIBUTION OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND FEDERAL SSI BENEFIT STANDARD/LIVING ARRANGEMENT, SEPTEMBER 1988

Federal benefit standard/living arrangement	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,434,069	1,433,924	82,740	2,917,405
Total percent	100.0	100.0	100.0	100.0
Regular Federal SSI benefit standard	90.0	90.9	90.3	89.6
Living in the household-of-another Federal SSI benefit standard	5.7	5.3	6.0	5.8
Medicaid institution/personal needs allowance Federal SSI benefit standard	4.2	3.8	3.7	4.4

Source: Office of Research and Statistics, Social Security Administration.

INCOME DISREGARDS

Under the program, $20 of monthly income from virtually any source (such as social security benefits, but *not* need-tested income such as veterans' pensions) is disregarded. In addition, the first $65 of monthly earned income plus one-half of remaining earnings are disregarded. Table 3 shows the maximum income that an individual and couple can have and still remain eligible for Federal SSI benefits under the regular Federal SSI benefit standards—taking into account these income disregards.

SSI law requires that an SSI applicant or recipient apply for all other benefits for which they are eligible. For example, in September 1988, 71 percent of the aged, 37 percent of the disabled, and 39 percent of the blind receiving SSI were also Social Security recipients.

For the blind and disabled only, the cost of an approved plan to achieve self-support is also disregarded. SSI recipients who receive benefits on the basis of blindness may also disregard work related expenses. For the disabled, only impairment related work expenses may be disregarded. Income received in sheltered workshops and work activity centers is considered earned income and qualifies for earned income disregards.

The value of any in-kind assistance is counted as income unless such in-kind assistance is specifically disregarded by statute. Generally, in-kind assistance provided by or under the auspices of a federally assisted program, or by a State or local government (for example, nutrition, food stamps, housing or social services), will not be counted as income. As described earlier, if an SSI applicant or recipient is living in the household of another and receiving in-kind support and maintenance from him or her, the SSI benefit standard for such an individual will be reduced by one-third of the Federal SSI benefit standard. By regulation, the Social Security Administration has also provided that the value of any in-kind support and maintenance received (other than in the case of those receiving in-kind assistance by reason of living in another's household), is presumed to be equal to no more than one-third of the Federal SSI benefit standard plus $20. The individual can rebut this presumption. If it is determined that the actual value is less than the one-third amount, the lower actual value will be counted as unearned income.

In legislation enacted in April 1983, in-kind support and maintenance provided by a private nonprofit organization to aged, blind, or disabled individuals must be disregarded under the SSI program if the State determines that the assistance is provided on the basis of need. Another exclusion from income is certain types of assistance provided to help meet home energy needs. Assistance provided to an aged, blind, or disabled individual for the purpose of meeting home energy costs either in cash or in kind and which is furnished by a home heating oil or gas supplier or by a utility company is to be disregarded. Assistance for home energy costs provided in-kind by a private nonprofit organization is also excluded.

As countable income (total income minus disregarded income) increases, a recipient's SSI payment level decreases. Eligibility for

SSI ends when countable income equals the Federal benefit standard plus the amount of applicable State supplementation.

A provision in the 1984 Deficit Reduction Act established a limit on the rate of recovery from SSI recipients who have been overpaid. In the case of overpayments, SSI law limits the amount of adjustment or recovery in any month to the lesser of: (1) the amount of the benefit for that month; or (2) an amount equal to 10 percent of the countable income (including the SSI payment) of the individual (or couple) for that month. This limitation does not apply if there is fraud in connection with the overpayment. The recipient may request a different rate at which benefits or income may be withheld or recovered.

TABLE 3.—MAXIMUM INCOME FOR ELIGIBILITY FOR FEDERAL SSI BENEFITS, 1989

	Receiving only Social Security		Receiving only wage income	
	Monthly	Annually	Monthly	Annually
Individual	$388	$4,656	$821	$9,852
Couple	573	6,876	1,191	14,292

Source: Office of Research and Statistics, Social Security Administration.

RESOURCES

In 1989, SSI eligibility is restricted to qualified persons who have countable assets of less than $2,000, or less than $3,000 in the case of married couples. The Deficit Reduction Act of 1984 (P.L. 98-369) increased the countable assets limit by $100 a year for an individual and $150 a year for a couple, beginning in calendar year 1985 and each year through calendar year 1989. Prior to January 1, 1985, the assets limit for an individual was $1,500 and $2,250 for a couple. The limit will be $2,000 for an individual and $3,000 for a couple from 1989 on.

In determining assets, a number of items are not included, such as the individual's home; and, within reasonable limits set by the Secretary of Health and Human Services: household goods, personal effects, an automobile, and a burial space for the individual, spouse, and members of the immediate family. Regulations place a limit of $2,000 in equity value on excluded household goods and personal effects and exclude the first $4,500 in current market wholesale value of an auto (100 percent of the auto's value if it is used for medical treatment or employment or has been modified for use by a handicapped person or is necessary to perform essential daily activities in unusual climate or terrain). Assets, tools and other property essential to self-support of the blind or the disabled are also excluded. SSI and title II retroactive benefit payments may not be considered as a resource for a period of 9 months after the month in which the retroactive benefit is received.

The cash value of life insurance policies with face values of $1,500 or less are not counted toward the $2,000 or $3,000 countable resources limit. The entire cash value of life insurance policies with face values greater than $1,500 is counted toward the countable resources limit. As an alternative to the life insurance exclusion, an SSI recipient may have excluded from countable resources up to $1,500 in separately identifiable funds set aside for burial expenses. However, term insurance or irrevocable burial trusts will also serve to reduce the $1,500 burial fund limit. Interest earned on burial accounts is not counted as either income or as a resource for SSI purposes.

Current law provides that an individual (or eligible spouse) who gives away or sells any nonexcludable resource for less than fair market value for the purpose of establishing SSI or Medicaid eligibility will have any uncompensated value of that resource (the difference between fair market value at the time of the transfer and the amount received for the resource) counted toward the resources limit of $2,000 for an eligible individual and $3,000 for a couple for a period of 24 months from the date of transfer. The 1987 Budget Reconciliation Act provides authority for the Social Security Administration to not apply this penalty if necessary to avoid undue hardship.

The Deficit Reduction Act of 1984 (P.L. 98-369) requires the Internal Revenue Service to furnish the Social Security Administration with certain nonwage information about SSI recipients. The IRS information consists primarily of reports of interest payments submitted to IRS by financial institutions but also includes income from dividends, unemployment compensation, etc. The purpose of the provision was to assist in alerting the Social Security Administration of the potential ownership by SSI recipients of bank accounts in excess of the SSI countable resources limit. In fiscal year 1987, computer matches between IRS tax files and SSI records resulted in 239,000 such matches. Only cases involving IRS reports of interest income of $51 or more were examined. The resulting savings to the SSI program were $64 million. As a result of the Social Security Administration's evaluation of these cases, the tolerance level was lowered to $41 beginning with fiscal year 1988. In October 1987, approximately 398,000 matches were identified using this lower tolerance level and were sent to Social Security offices for verification of the information.

Prior to the 1984 Deficit Reduction Act, if in any month a recipient's assets exceeded the asset limit, the individual was ineligible for benefits in that month and the entire amount of the benefit paid for that month was considered an overpayment subject to recovery. Now SSI law provides that in cases where there is an overpayment based on an excess of assets of $50 or less, the recipient is deemed to be without fault for purposes of waiving the overpayment and the overpayment is not recovered unless the Secretary finds that the failure to report the excess was knowing and willful on the part of the recipient.

An individual may receive SSI benefits for a limited time even though he has property that, if counted, would make him ineligible. These benefits are conditioned upon the disposal of the property, and are subject to recovery as overpayments when the property is sold. The 1987 Budget Reconciliation Act provides, in addition, for the exclusion of real property, for so long as it cannot be sold, because it is jointly owned; legal impediments; or reasonable efforts to sell it have been unsuccessful.

DEEMING OF INCOME AND RESOURCES

The income of an ineligible spouse who lives with an adult SSI applicant or recipient is considered in determining the eligibility and amount of payment to the individual. The income of the parents of a disabled or blind child under the age of 18 is also considered in determining the eligibility and payment for the child. The law also provides that deeming of income and resources shall occur "except to the extent determined by the Secretary to be inequitable under the circumstances".

By regulation, the Secretary of HHS has provided that in determining the amount of the income of the ineligible spouse or parent to be deemed to the SSI applicant or recipient, the needs of the spouse or parent and other children in the household are taken into account. In addition, the SSI earned and unearned income disregards are applied in determining the amount of income to be deemed to the SSI applicant or recipient. If the combined countable income of an eligible individual and an ineligible spouse does not exceed the SSI benefit standard for an eligible couple in that State (including any State supplementary payment), the SSI applicant or recipient would be eligible to receive an SSI benefit.

For example, in a State with no State supplementation the deeming procedure would work as follows in the case of an ineligible spouse earning $500 per month living with an eligible individual with $180 of Social Security benefits:

Unearned income of eligible individual	$180.00
Less $20 exclusion	−20.00
Countable unearned income	160.00
Earned income of ineligible individual	500.00
Less $65 earned income disregard	−65.00
Less one-half of remaining earnings ($435)	−217.50
Countable earned income	217.50
Plus countable unearned income	160.00
Couple's total countable income	377.50
SSI payment standard for couples	553.00
Less countable income	−377.50
Benefit payable to eligible individual	176.50

Thus the benefit for the eligible individual will be $176.50. Without deeming, the individual would have received $208 [$368−($180 less $20 exclusion)]. The $20 exclusion can only be used once and is first applied to unearned income, which in this example is the $180 of Social Security income.

An individual's resources are deemed to include those of his ineligible spouse (or in the case of a child under the age of 18, those of his parents) with whom he lives. Under the Secretary's regulations, in determining the amount of the spouse's or parents' resources that can be deemed all applicable exclusions are applied. In the case of a child, only the value of the parents' resources that exceeds the applicable limits ($2,000 for a single parent, and $3,000 for two parents) is deemed to the child.

There were 41,200 spouse-to-spouse and 22,500 parent-to-child cases in 1987 in which deeming reduced the benefit. This does not take into account the number of individuals who were not eligible because of the deeming provision.

In determining the eligibility of aliens applying for SSI, the income and resources of their sponsors are considered. After allowances for the needs of the sponsors and his family, the remainder is deemed available for the support of the alien applicant for a 3-year period after admission as a permanent resident in the United States. This provision does not apply to those who become blind or disabled after admission as a permanent resident, to refugees, and to persons granted political asylum.

RESTRICTIONS ON SSI ELIGIBILITY OF RESIDENTS OF PUBLIC INSTITUTIONS

An individual who is a resident or an inmate of a public institution is ineligible for SSI unless the institution is a facility approved for Medicaid payments, is receiving such payments on behalf of the person, and these payments represent more than 50 percent of the cost of services provided by the facility to the person. However, SSI payments may be made to persons in publicly operated community residences serving no more than 16 persons. In addition, temporary residents of public emergency shelters can receive SSI payments for up to 6 months in any 9-month period.

The 1987 Budget Reconciliation Act provided for a further exception for those who are in public institutions for medical or psychiatric care. As in the case for temporary care in a nursing home or other medical institution, if a physician certifies that the stay in the medical or psychiatric hospital is not expected to exceed 3 months, the individual can maintain their eligibility for SSI benefits for up to 3 months in order to maintain a living arrangement in the community.

STATE SUPPLEMENTATION

State supplementary payments are required by law to maintain income levels of former public assistance recipients transferred to the Federal SSI program. In January 1986, approximately 7,976 recipients were receiving payments based in part or solely because of this provision. States have the option to choose to supplement the Federal SSI benefit standard for both former public assistance recipients and other SSI recipients. At the present time, all but eight States and jurisdictions provide some form of optional State supplementation. Those are: Arkansas, Georgia, Kansas, Mississippi, Northern Mariana Islands, Tennessee, Texas, and West Virginia. States (or local jurisdictions) may elect to administer their supplementary payments themselves or may contract with the Social Security Administration for Federal administration. Seventeen States and the District of Columbia have contracted with the Social Security Administration to administer the State optional supplementation program. Since the SSI program began in 1974, six States have shifted from Federal to State administration of their optional State supplementation program.

Approximately 42 percent of the SSI recipients receive a State supplement. For those SSI recipients, other than those receiving a State supplement because they are living in some type of group living arrangement, the amount of State supplement ranges from $2 a month to $384 a month for an individual. At present, 26 States and the District of Columbia supplement the Federal standard for individuals living independently.

Table 22 shows the number of persons receiving State administered payments and federally administered SSI payments by State for December, 1988.

Table 4 for individuals living independently and table 5 for couples illustrate the maximum potential payment from Federal SSI, State supplements and food stamps for persons, with no income, by State. These tables assume that the elderly individual or couple receive an excess shelter deduction of $170 and an excess medical cost deduction of $12 in the food stamp program. Approximately 64 percent of the elderly in the food stamp program take a shelter deduction, and it is estimated that approximately 18 percent of the elderly are allowed a deduction that exceeds the excess shelter expense ceiling for nonelderly or non-disabled households ($170 per month). However, since only 15 percent of the elderly claim a medical cost deduction, the $12 average of medical cost deductions over all elderly recipients (both those who claim and those who do not) was used in the table, instead of the average $76 deduction taken by the small minority who claim it. If the higher medical deduction level were used, food stamp benefits shown in the table would be increased by about $19. For those individuals or couples with no shelter deduction, the monthly food stamp and combined benefit amount would be reduced by $51. There is no ceiling on the excess shelter deduction for aged or disabled persons.

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1989 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$368	$66	$434	$5,208
Alaska	685	55	740	8,880
Arizona	368	66	434	5,208
Arkansas	368	66	434	5,208
California	602	[3] 0	602	7,224
Colorado	426	48	474	5,688
Connecticut	[4] 752	0	752	9,024
Delaware	368	66	434	5,208
District of Columbia	383	61	444	5,328
Florida	368	66	434	5,208
Georgia	368	66	434	5,208
Hawaii	373	137	510	6,120
Idaho	[5] 441	50	491	5,892
Illinois	[6] NA	NA	NA	NA
Indiana	368	66	434	5,208
Iowa	368	66	434	5,208
Kansas	368	66	434	5,208
Kentucky	368	66	434	5,208
Louisiana	368	66	434	5,208
Maine	378	63	441	5,292
Maryland	368	66	434	5,208
Massachusetts	497	27	524	6,288
Michigan	398	57	455	5,460
Minnesota	[7] 403	55	458	5,496
Mississippi	368	66	434	5,208
Missouri	368	66	434	5,208
Montana	368	66	434	5,208
Nebraska	406	54	460	5,520
Nevada	404	55	459	5,508
New Hampshire	[8] 395	61	456	5,472
New Jersey	399	56	455	5,460
New Mexico	368	66	434	5,208
New York	454	40	494	5,928
North Carolina	368	66	434	5,208
North Dakota	368	66	434	5,208
Ohio	368	66	434	5,208
Oklahoma	432	46	478	5,736
Oregon	370	65	435	5,220
Pennsylvania	400	56	456	5,472

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1989 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Rhode Island	$429	$47	$476	$5,712
South Carolina	368	66	434	5,208
South Dakota	383	61	444	5,328
Tennessee	368	66	434	5,208
Texas	368	66	434	5,208
Utah	377	63	440	5,280
Vermont	[9] 428	48	476	5,712
Virginia	368	66	434	5,208
Washington	[10] 396	57	453	5,436
West Virginia	368	66	434	5,208
Wisconsin	471	[3] 0	471	5,652
Wyoming	388	60	448	5,376

[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For one-person households, maximum food stamp benefits from Oct. 1988 through Sept. 1989 are $90 in the 48 contiguous States and the District of Columbia, $114 in Alaska (urban areas, benefit levels in rural Alaska are increased by about 50 percent to account for higher food prices in such areas), and $137 in Hawaii.

For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $106 per month, (2) an excess shelter deduction of $170 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $12 monthly (estimated from 1986 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($478 and $393, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] Individual budget process.

[5] State disregards $20 of SSI payment in determining the State supplementary payment.

[6] State decides benefits on case-by-case basis.

[7] Payment level for Hennepin County. State has 10 geographic payment levels.

[8] State disregards $13 of an individual's income in determining the supplementary payment.

[9] State has two geographic payment levels—highest are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration.

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1989 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$553	$85	$638	$7,656
Alaska	1,015	52	1,067	12,804
Arizona	553	85	638	7,656
Arkansas	553	85	638	7,656
California	1,116	[3] 0	1,116	13,392
Colorado	845	0	845	10,140
Connecticut	[4] 1,104	0	1,104	13,248
Delaware	553	85	638	7,656
District of Columbia	583	76	659	7,908
Florida	553	85	638	7,656
Georgia	553	85	638	7,656
Hawaii	562	203	765	9,180
Idaho	[5] 596	78	674	8,088
Illinois	[6] NA	NA	NA	NA
Indiana	553	85	638	7,656
Iowa	553	85	638	7,656
Kansas	553	85	638	7,656
Kentucky	553	85	638	7,656
Louisiana	553	85	638	7,656
Maine	568	81	649	7,788
Maryland	553	85	638	7,656
Massachusetts	755	24	779	9,348
Michigan	598	72	670	8,040
Minnesota	[7] 619	65	684	8,208
Mississippi	553	85	638	7,656
Missouri	553	85	638	7,656
Montana	553	85	638	7,656
Nebraska	613	67	680	8,160
Nevada	627	63	690	8,280
New Hampshire	[8] 574	85	659	7,908
New Jersey	578	78	656	7,872
New Mexico	553	85	638	7,656
New York	655	54	709	8,508
North Carolina	553	85	638	7,656
North Dakota	553	85	638	7,656
Ohio	553	85	638	7,656
Oklahoma	681	47	728	8,736
Oregon	553	85	638	7,656
Pennsylvania	602	70	672	8,064

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1989 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Rhode Island	$668	$51	$719	$8,628
South Carolina	553	85	638	7,656
South Dakota	568	81	649	7,788
Tennessee	553	85	638	7,656
Texas	553	85	638	7,656
Utah	571	80	651	7,812
Vermont	[9] 662	52	714	8,568
Virginia	553	85	638	7,656
Washington	[10] 575	78	653	7,836
West Virginia	553	85	638	7,656
Wisconsin	719	[3] 0	719	8,628
Wyoming	593	73	666	7,992

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[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For two-person households, maximum food stamp benefits from Oct. 1988 through Sept. 1989 are $165 in the 48 contiguous States and the District of Columbia, $210 in Alaska (urban areas, benefit levels for rural Alaska are about 50 percent higher to account for high food prices in such areas), and $251 in Hawaii.

For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $106 per month, (2) an excess shelter deduction of $170 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $12 monthly (estimated from 1986 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($478 and $393, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] Individual budget process.

[5] State disregards $20 of SSI income in determining the State supplementary payment amounts.

[6] State decides benefits on case-by-case basis.

[7] Payment level for Hennepin County. State has 10 geographical payment levels.

[8] State disregards $20 of a couple's SSI income in determining supplementary payment amounts.

[9] State has two geographic payment levels—highest levels are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration.

STATE SSI SUPPLEMENT LEVELS OVER TIME

Throughout the entire period from July 1975 to January 1989, 23 States have continuously provided supplemental SSI payments to aged individuals living independently, and 21 States continuously supplemented SSI payments to aged couples living independently.

During the period of July 1975 to January 1989, California, Michigan, and Oklahoma were the only States which increased supplements faster than inflation for aged individuals living independently (see table 23). Alaska, Colorado, and New Hampshire kept benefit levels even with inflation.

The District of Columbia, South Dakota, Utah, and Wyoming all began supplementing SSI payments to individuals between 1975 and 1980.

Among the States which have supplemented SSI payments for aged couples living independently, only Alaska, California, Colorado, Michigan, and Oklahoma have kept their supplemental increases equivalent to or higher than inflation.

STATE SUPPLEMENTATION FOR SPECIAL HOUSING NEEDS

A significant number of the aged, disabled and blind population receiving SSI cannot live alone because of mental or physical limitations and have a need for housing which involves services beyond room and board. These services often include supervision for daily living and protective services for the mentally retarded, chronically mentally ill, or the frail or confused elderly. Such nonmedical supervised and/or group living arrangements generally cost more than the Federal SSI benefit needs standard of $368 a month and often more than the combined Federal and SSI State supplementation for those classified as living independently.

All but 7 of the 50 States and the District of Columbia have Federal or State administered State supplementation which is specifically directed at covering the additional cost of providing housing in a protective, supervised, or group living arrangement.

These living arrangements are identified by a variety of terms including: adult foster care homes; domiciliary care homes; congregate care; group home for the mentally retarded and a variety of other terms. The amount of supplementation by the State also varies a great deal. For example, in the State of Maryland under a State-administered supplementation program, a "special services" group living facility for the chronically mentally ill has a State supplementation of $657 a month in addition to the Federal benefit level of $354. In addition, the State disregards $72.50 per month of any income, including Federal SSI, in determining the amount of State supplementation. Therefore, the total Federal and State SSI payment in a month is $1,011. In other States the State supplementation is less than $50 a month for those who need little supervision and care. However, in some States, the cost of supervised group living care is also partially met by direct State funding of the staff. In a number of States, the State makes payments for nonmedical group care directly to private residential facilities based on a rate negotiated by the State with each facility. In such cases, there is often a "personal needs allowance" payment made directly to or on behalf of the residents of the facility.

SSI OUTREACH AND SPECIAL REHABILITATION SERVICES

The 1983 Social Security Amendments (P.L. 98-21) mandated the Social Security Administration (SSA) to conduct two separate outreach activities aimed at the aged population. The first was a one-time mailing of alerts to those aged individuals and couples whose Social Security benefits were less than the supplemental security income (SSI) eligibility levels. Between February and July 1984 over 7.6 million notices were mailed as part of this one-time alert. SSA used a mail survey questionnaire to evaluate the effects of this alert process. As a result of the one-time outreach effort, there were approximately 160,000 field office contacts. These contacts resulted in 79,000 applications for SSI payments and 58,000 awards, with an average monthly SSI payment of $60 to supplement these recipients' social security benefits. Most of the people who did not contact SSA after receiving the alert reported that they felt that they were ineligible because of too many resources or too much income.

The second outreach activity is an ongoing effort to notify two groups of Social Security beneficiaries: those about to reach age 65; and disabled individuals who have been receiving Social Security benefits for 21 consecutive months and will soon be eligible for Medicare. Beginning in July 1983, and continuing each month, approximately 110,000 aged and disabled social security beneficiaries receive an SSI alert which accompanies the Medicare enrollment notice. Eighty percent of the alerts go to retired beneficiaries, with the remainder sent to disability beneficiaries. The trend in SSI monthly aged awards showed a marked change when this mailing began. SSA estimates that about 2,000 additional aged awards per month have resulted from the ongoing alerts since July 1983.

As a result of these two outreach efforts, the decline in the aged SSI population was temporarily reversed, resulting in a high of 2,083,633 aged recipients in September 1984. Since that date, the aged SSI population has begun to decrease somewhat, although at a slower rate than that experienced before the outreach.

Under the SSI law, certain disabled and blind individuals are referred to the State vocational rehabilitation agency and SSI program funds are available to reimburse States for the cost of such services if the individual, as a result of such services, was able to earn at least $300 a month for at least 9 months.

SSI AND THE HOMELESS

Evidence that approximately 30-40 percent of residents of emergency shelters for the homeless are the chronically mentally ill, including significant numbers of former residents of mental institutions, has led to the enactment of specific legislation and the development of outreach programs and administrative initiatives to better meet the needs of the homeless who may be eligible for SSI.

These initiatives are designed to address special problems related to the characteristics of the homeless: they are often difficult to locate and contact; they have limited ability to find information needed to make application; and they are often incapable or reluctant to follow through with the claim process. While many of the chronically mentally ill live with family or have other ongoing contact with those who can assist them with daily living activities, those mentally ill who are homeless are more likely to have very limited contact with family or others who could assist them in obtaining housing or applying for benefits.

As stated earlier, specific legislative changes were made in 1983 to respond to the needs of the homeless. In-kind support or maintenance provided by a private nonprofit organization is not counted as income under the SSI program if the State determines that the assistance is provided on the basis of need. While residents of most public institutions except small group homes are not eligible for SSI, temporary residents of public emergency shelters can receive SSI benefits for up to 6 months in any 9-month period.

The Social Security Administration also has statutory authority to provide emergency advance payments to individuals applying for SSI who are presumptively eligible for SSI in amounts up to the full SSI monthly benefit standard.

Administrative initiatives by the Social Security Administration to provide assistance to the homeless include:

Outreach.—District office staff of the Social Security Administration have established "contact stations" in shelters in a number of cities. For example, the New York City outreach project has Social Security staff outstationed in seven shelters. Such projects include the use of multiagency outreach teams which include: social services case workers; a consultative medical examiner who is qualified to provide consultative examinations for the Disability Determination Service of the State; a disability examiner, from the Disability Determination Service; and a claims representative from an office of the Social Security Administration. By November 1987, 1,886 applications and related contacts were made under this arrangement and the allowance rate has been 70 percent for the SSI and Social Security cases involved.

"Immediate payments".—Beginning in October 1985, local social security offices were given the authority to make "immediate payments" for certain Social Security and SSI cases when it is found that any delay in payment would result in deprivation of food and/or shelter or endangerment of health. "Immediate" usually means while the beneficiary waits or the next day at the latest. The payments are made using preprinted checks limited to a maximum per beneficiary of $200 or the amount due, whichever is less, in a 30-day period. The person's entitlement to benefits must be verified by the local office. During fiscal year 1987, 6,430 immediate payments were issued under this procedure. The total amount of these payments equaled $1,126,564 for an average of $175 per payment.

Prerelease agreements between public mental institutions and local offices of the Social Security Administration have been a procedure available since the beginning of the SSI program. One of the purposes of these, usually informal, agreements is to identify those disabled individuals who upon release from an institution will be in need of immediate assistance if homelessness is to be prevented. Residents of large public institutions including State mental hospitals generally are not eligible for SSI. Therefore as part of the planning for the release of the patient, there is a determination of their meeting the disability criteria for SSI prior to leaving the institution. In addition, there is a determination that the individual will meet the other SSI eligibility criteria based on a projection of the individual's situation upon leaving the institution. When the decision is favorable, upon release from the institution an SSI payment can be made immediately.

From a recently completed evaluation by the Social Security Administration, it was found that 75 percent of the public mental hospitals and 63 percent of public institutions for the physically handicapped have entered into prerelease agreements with field offices of the Social Security Administration. The percentage for facilities for the mentally retarded or for the treatment of substance abuse was significantly lower. Also, SSA found that in general, prerelease agreements were underutilized. SSA has indicated that they are revising and streamlining the instructions on the use of prerelease agreements.

The 1987 Budget Reconciliation Act authorizes demonstration projects for States to establish projects to demonstrate special procedures and services to ensure that homeless individuals are provided SSI and other benefits to which they are entitled and to receive assistance in using such benefits to obtain permanent housing, food and health care. These projects would include the funding of multiagency SSI outreach teams of the type in operation in New York City.

COMPARISON OF SSI PAYMENT LEVELS TO POVERTY THRESHOLDS

Table 6 compares the Federal SSI benefit for a single individual to the poverty threshold (census). Both the poverty threshold and the benefit level are indexed to the Consumer Price Index. (The percentage increase for the poverty threshold and the SSI benefit increase varies slightly because of a difference in the method of calculation.) As a result of Public Law 98-21, the SSI benefit levels were increased by $20 per month for individuals and $30 per month for couples in July 1983. They were further increased by 3.5 percent in January 1984. This explains why SSI benefits, in relation to the poverty level, increased to approximately 75 percent in 1984 and 1985 compared to 71 percent in the 1975 to 1982 period.

For individuals receiving unearned income such as Social Security, the amount of benefits is $240 per year more than the SSI benefit. Because the $240 amount is not indexed, the percent of poverty is slightly lower in 1989 compared to 1975 despite the SSI benefit increases.

Table 7 presents the same information for a couple. The SSI benefit for a couple is approximately 88 percent of the poverty threshold.

TABLE 6.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE INDIVIDUALS RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1989

	Calendar year—						
	1975	1980	1982	1984	1986	1988	1989
Poverty threshold	2,572	3,941	4,630	4,980	5,255	5,672	[1] 5,950
Federal SSI benefits:							
Dollars per year	1,822	2,677	3,294	3,768	4,032	4,248	4,416
Percent of poverty	70.8	67.9	71.1	75.7	76.7	74.9	74.2
Federal SSI and social security:							
Dollars per year	2,062	2,917	3,534	4,008	4,272	4,488	4,656
Percent of poverty	80.2	74.0	76.3	80.5	81.3	79.1	78.3
Federal SSI, social security, and food stamps: [2]							
Dollars per year	2,350	3,345	3,906	4,294	4,488	4,848	5,016
Percent of poverty	91.4	84.9	84.4	86.2	85.4	85.5	84.3

[1] Projected on basis of CBO projected increases in the consumer price index.

[2] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

TABLE 7.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE COUPLES RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1989

	Calendar year—						
	1975	1980	1982	1984	1986	1988	1989
Poverty threshold	3,232	4,954	5,840	6,280	6,628	7,156	[1] 7,507
Federal SSI benefits:							
Dollars per year	2,734	4,016	4,940	5,664	6,048	6,384	6,636
Percent of poverty	84.6	81.1	84.6	90.2	91.2	89.2	88.4
Federal SSI and social security:							
Dollars per year	2,974	4,256	5,180	5,904	6,288	6,624	6,876
Percent of poverty	92.0	85.9	88.7	94.0	94.9	92.6	91.6
Federal SSI, social security, and food stamps: [2]							
Dollars per year	3,430	4,906	5,792	6,393	6,696	7,200	7,476
Percent of poverty	106.1	99.0	99.2	101.8	101.0	100.6	99.6

[1] Projected on basis of CBO projected increases in the consumer price index.

[2] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

SSI PROGRAM COSTS

Table 8 shows the program costs for the SSI program in fiscal years 1986, 1987 and 1988 and estimated costs for fiscal years 1989 and 1990. In fiscal year 1988, approximately $11.4 billion of federally financed payments were made to the aged, blind, and disabled. The Federal Government's cost of administering the program was approximately $1 billion. Federal SSI benefits and the cost of administering the program are financed from general funds from the Treasury. The Social Security Administration also administers the payment of approximately $2.9 billion of State financed State supplementary payments. An additional $362 million was paid out in State administered State supplementation payments.

In fiscal year 1988, of the $10.5 billion of Federal SSI benefits, approximately $8.1 billion, or 77 percent, went to those who were eligible on the basis of disability; $2.3 billion, or 21 percent, to the aged; and $214 million, or 2 percent, to the blind.

In addition to the fact that a higher percent of the total SSI population were eligible on the basis of disability rather than age, the higher percent of Federal SSI payments for the disabled is also due to the fact that only 37 percent of the disabled have other income in the form of Social Security benefits compared to 71 percent of the aged.

Table 9 shows the total expenditures for the SSI program in each State, including not only the federally administered Federal and State supplementation payments but also the State administered State supplementation payments.

TABLE 8.—SSI FEDERAL PROGRAM COST BY ACTIVITIES, FISCAL YEARS 1986–90

[In millions of dollars]

Program by activities	1986	1987	1988	1989 (estimate)	1990 (estimate)
Direct program:					
Federal benefit payments [1]	9,315	9,900	11,368	11,340	11,021
Comparable 12 months of payments	(9,315)	(9,900)	(10,424)	(11,340)	(11,968)
Beneficiary services [2]	8	10	13	14	14
Payments to the trust funds for administrative costs [3]	1,022	976	975	1,087	1,111
Demonstration	(4)	(4)	(4)	2	2
Federal fiscal liability	(4)	23	−11	33	....
Total Federal direct program	10,345	10,909	12,345	12,477	12,148

[1] 1986, 1987 and 1989 reflect 12 months of payments. 1988 reflects 13 months of payments including the check for October 1, 1988; 1990 reflects 11 months of payments.

[2] Includes rehabilitation services provided to blind and disabled individuals, and monitoring of treatment of drug addicts and alcoholics.

[3] Includes cost of administering Federal SSI payments and Federally administered State supplementation. These are not available separately.

[4] Less than $500,000.

Source: Office of Research and Statistics, and Office of Budget, Social Security Administration.

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1988

[In thousands of dollars]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Total	13,549,664	10,542,868	[1] 2,644,813	361,983
Alabama	314,002	303,566		10,436
Alaska	23,959	10,989		12,970
Arizona	110,525	107,216		3,309
Arkansas	159,314	159,294	20	
California	3,342,077	1,479,907	1,862,170	
Colorado	110,728	86,596		24,132
Connecticut	134,181	79,597		54,584
Delaware	19,473	18,743	730	
District of Columbia	50,463	45,925	4,538	
Florida	543,492	532,183	0	11,309
Georgia	360,519	360,501	18	
Hawaii	38,165	33,902	4,263	
Idaho	26,892	22,687		4,205
Illinois	517,959	458,386		59,573
Indiana	142,576	138,957		3,619
Iowa	70,061	67,857	2,204	
Kansas	53,239	53,214	25	
Kentucky	283,048	272,581		10,467
Louisiana	325,686	325,653	33	
Maine	49,674	42,134	7,540	
Maryland	160,060	153,901	48	6,111
Massachusetts	343,678	223,668	120,010	
Michigan	396,256	326,423	69,833	
Minnesota	110,231	85,564		24,667
Mississippi	264,779	264,752	27	
Missouri	203,494	199,485		4,009
Montana	22,417	21,578	839	
Nebraska	39,366	33,912		5,454
Nevada	24,126	21,422	2,704	
New Hampshire	21,594	15,729		5,865
New Jersey	294,319	243,873	50,446	
New Mexico	72,469	72,221		248
New York	1,303,072	985,568	317,504	
North Carolina	386,801	334,056		52,745
North Dakota	16,968	15,488		1,480

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1988—Continued

[In thousands of dollars]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Ohio	389,633	389,602	31	
Oklahoma	169,904	135,859		34,045
Oregon	87,476	75,633		11,843
Pennsylvania	529,120	454,450	74,670	
Rhode Island	45,075	34,812	10,263	
South Carolina	209,604	204,600		5,004
South Dakota	21,143	20,556	19	568
Tennessee	321,557	321,556	1	
Texas	622,122	622,122		
Utah	27,921	26,835	404	682
Vermont	27,008	19,167	7,841	
Virginia	229,751	215,319		14,432
Washington	160,846	142,788	18,058	
West Virginia	124,024	124,024		
Wisconsin	240,242	149,600	90,642	
Wyoming	6,699	6,473		226
Other areas:				
Northern Mariana Islands	1,944	1,944		

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[1] Payments reduced by $68,000 to reflect returned checks and overpayment refunds not distributed by State.

Source: Office of Research and Statistics, Social Security Administration.

Table 10 illustrates the total amount of Federal and State benefit payments from calendar years 1970 to 1987 and fiscal years 1988 to 1990. From 1970 to 1973, these were the benefits under the old-age assistance, aid to the blind, and aid to the permanently and totally disabled programs. For 1989 and 1990, these are estimated payment projections. In fiscal year 1988, Federal benefit payments totaled $11.368 billion and State payments of $3.221 billion.

TABLE 10.—FEDERAL AND STATE BENEFIT PAYMENTS UNDER SSI AND PRIOR ADULT ASSISTANCE PROGRAMS, CALENDAR YEARS 1970–87 AND FISCAL YEARS 1988–90

[Outlays in millions of dollars]

Year [1]	Total	Total constant 1988 dollars	Federal payments	Total State payments	State payments	
					Federally administered	State administered
1970	2,939	8,938	1,801	1,138		
1971	3,206	9,341	([2])	([2])		
1972	3,392	9,576	1,993	1,398		
1973	3,418	9,084	1,987	1,432		
1974	5,246	12,556	3,833	1,413	1,264	149
1975	5,878	12,892	4,314	1,565	1,403	162
1976	6,066	12,580	4,512	1,554	1,388	166
1977	6,306	12,279	4,703	1,603	1,431	172
1978	6,552	11,858	4,881	1,671	1,491	180
1979	7,075	11,499	5,279	1,796	1,590	207
1980	7,941	11,372	5,866	2,074	1,848	226
1981	8,593	11,155	6,518	2,076	1,839	237
1982	8,981	10,982	6,907	2,074	1,798	276
1983	9,404	11,141	7,423	1,981	1,711	270
1984	10,372	11,780	8,281	2,091	1,792	299
1985	11,060	12,129	8,777	2,283	1,973	311
1986	12,081	13,007	9,498	2,583	2,243	340
1987	12,951	13,453	10,029	2,922	2,563	359
1988 [3]	14,589	14,589	11,368	3,221	2,859	362
1989 [4]	14,657	[5] 14,038	11,340	3,317	2,935	382
1990 [4]	14,358	[5] 13,205	11,021	3,337	2,935	402

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[1] 1970–1973 refers to Old-Age Assistance, Aid to the Blind and Aid to the Permanently and Totally Disabled; 1974–1990 refers to Supplemental Security Income.

[2] Data not available.

[3] During fiscal year 1988, there were 13 regular monthly check delivery days. October 1, 1988, a regular check day, was a non-banking day, and October SSI checks were delivered September 30. These are included in fiscal year 1988 benefit expenses.

[4] Fiscal year estimated outlays.

[5] Based on the assumption that the relative increase in the annual average CPI-U from 1988 to 1989, and 1989 to 1990, will equal the increase in the annual average CPI-U from 1987 to 1988.

Source: Office of Research and Statistics, and Office of Budget, Social Security Administration.

NUMBER OF RECIPIENTS: 1970–1993 (PROJECTED)

Table 11 illustrates the changes in the number of individuals receiving assistance under the federally administered SSI program and prior programs. The total number of individuals receiving assistance was 3.1 million in 1970; this increased to 4.3 million in 1975 and declined to 3.9 million in 1982. It is expected to increase to 4.4 million in 1988 and 4.7 million in 1993. The number of aged receiving SSI has declined sharply since 1975 from 2.3 million (or 2.5 million if disabled over age 65 are counted as aged) to 1.4 million individuals in 1988 (2.0 million if disabled over 65 are counted). The number of disabled receiving assistance increased sharply from 1.0 million in 1970 to 2.0 million in 1975. The number of blind and disabled is projected to be around 3.4 million individuals in 1993.

TABLE 11.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, 1974–1993; AND ADULT ASSISTANCE UNDER PRIOR PROGRAMS, 1970–1973

[In thousands]

Year [1]	Total [2]	Aged [3]	Blind or disabled		Federal SSI [6]	State supplemental only
			Total [4]	65 and older [5]		
1970	3,098	2,082	1,016			
1971	3,172	2,024	1,148			
1972	3,182	1,934	1,248			
1973	3,173	1,820	1,353			
1974	3,996	2,286	1,710	([7])	([8])	([8])
1975	4,314	2,307	2,007	201	3,893	421
1976	4,236	2,148	2,088	249	3,799	437
1977	4,238	2,051	2,187	302	3,778	460
1978	4,217	1,968	2,249	344	3,755	462
1979	4,150	1,872	2,278	386	3,687	462
1980	4,142	1,808	2,334	419	3,682	460
1981	4,019	1,678	2,341	443	3,590	429
1982	3,858	1,549	2,309	462	3,473	384
1983	3,901	1,515	2,386	485	3,590	311
1984	4,029	1,530	2,499	507	3,699	331
1985	4,138	1,504	2,634	525	3,799	339
1986	4,269	1,473	2,796	540	3,922	348
1987	4,385	1,455	2,930	560	4,019	366
1988	4,464	1,433	3,030	573	4,089	375
1989 [9]	4,479	1,421	3,058	583	4,108	371
1990 [9]	4,553	1,402	3,151	596	4,177	376
1991 [9]	4,621	1,387	3,234	609	4,240	381
1992 [9]	4,688	1,376	3,312	622	4,301	387
1993 [9]	4,746	1,367	3,379	635	4,355	391

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[1] Data are for December of each year except for 1989–1993 where the data are for March.

[2] All persons with Federal SSI payments and/or Federally administered State supplementation; 1974–1993. For 1970–1973, the total is the number of recipients under the Old-Age Assistance and Aid to the Blind and Aid to the Permanently and Totally Disabled Programs.

[3] For 1970–1973, this column is the number of recipients under the Old-Age Assistance program.

[4] For 1970–1973, this column is the number of recipients under the Aid to the Blind and Aid to the Permanently and Totally Disabled Programs.

[5] For 1974–1993, this is the number of age 65 or older individuals who first received SSI benefits because of being blind or disabled.

[6] All persons with Federal SSI payments include those receiving Federal payments only or both Federal SSI and Federally administered State supplementation.

[7] Data not available for December 1974. In January 1974, there were 87,000 blind and disabled recipients aged 65 or older.

[8] Data not available.

[9] For 1989–1993, these data are projections under current law.

Source: Office of Research and Statistics, and Office of Budget, Social Security Administration.

The number of individuals receiving only Federally administered State SSI benefits steadily declined from 1978 to 1983 as the number of mandatory State supplementation cases declined, but starting with 1984, has steadily increased.

SSI PARTICIPATION RATES

Table 12 shows SSI participation among the elderly using various measures. The numerator in all three columns is the sum of columns two and four in table 11. Column one simply divides the SSI aged participants, including the disabled population over age 65 by the total number of elderly. That rate declined from 11.1 percent in 1975 to 6.8 percent in 1987, primarily as a result of increasing incomes among the aged and decreasing participation among low-income elderly. Column two presents the number of elderly SSI recipients divided by the number of poor elderly. This rate has declined from 75 percent in 1977 to 58 percent in 1987. Between 1982 and 1984, this percentage increased, perhaps as a result of outreach efforts mandated by the 1983 Social Security Amendments (P.L. 98-21). This is a gross measure of participation, in that it does not control for other SSI eligibility factors, such as assets. The final column shows the number of SSI aged recipients as a percentage of the number of poor elderly before transfers, as shown in table 20 in Appendix I.

TABLE 12.—SSI PARTICIPATION RATES

[In percent]

	Among all elderly	Among elderly poor	Among pretransfer elderly poor
1975	11.1	75.6	NA
1976	10.3	72.4	NA
1977	9.8	74.1	NA
1978	9.4	71.5	NA
1979	9.0	61.3	68.7
1980	8.7	57.5	64.7
1981	8.1	55.0	63.3
1982	7.5	53.6	62.3
1983	7.3	55.2	61.9
1984	7.3	61.2	66.3
1985	7.1	58.7	64.5
1986	6.9	57.9	63.4
1987	6.8	57.7	64.7

NA—Not available.

ELIGIBILITY OF SSI RECIPIENTS FOR MEDICAID

States have three options as to how they treat SSI recipients in relation to Medicaid eligibility. Section 1634 of SSI law allows the Social Security Administration to enter into agreements with States to automatically cover all SSI recipients with Medicaid eligibility. SSI recipients are not required to make a separate application for Medicaid under this arrangement. Thirty States have chosen this option, and SSI recipients in these States account for approximately 75 percent of all SSI recipients nationwide.

Under the second option, States elect to automatically provide Medicaid eligibility for all SSI recipients, but only if the recipient completes a separate application with the State agency which administers the Medicaid program. The six States of Alaska, Idaho, Kansas, Mississippi, Nevada, and Oregon, affecting about 2.5 percent of SSI recipients nationwide, have elected this option.

The third and most restrictive option is known as the "209(b)" option, under which States may impose Medicaid eligibility criteria which are more restrictive than SSI criteria, so long as the criteria chosen were part of the State's approved Medicaid State plan in January 1972. 209(b) States may be more restrictive in defining blindness or disability, or more restrictive in their financial requirements for eligibility. However, aged, blind, and disabled Medicaid applicants must be allowed to spend-down in 209(b) States, regardless of whether or not the State has a medically needy program. Fourteen States use the 209(b) option for Medicaid coverage of aged, blind, and disabled SSI recipients. About 22 percent of the SSI recipient population nationwide lives in these 209(b) States. The 14 States that use this option are:

Connecticut
Hawaii
Illinois
Indiana
Minnesota
Missouri
Nebraska
New Hampshire
North Carolina
North Dakota
Ohio
Oklahoma
Utah
Virginia

An amendment included in the 1986 SSI disability amendments (P.L. 99-643) required effective July 1, 1987, that 209(b) States continue Medicaid coverage for those SSI recipients who were eligible for Medicaid under a State's more restrictive criteria beginning with the time the individual becomes eligible under Section 1619.

The same legislation required States, effective July 1, 1987, to provide for continued Medicaid coverage for those individuals who lose their eligibility for SSI when their income increases because they become newly eligible for social security benefits as an adult disabled child or because of an increase in their benefits as an adult disabled child. Protection against loss of Medicaid will also be provided for certain blind or disabled individuals who lose their SSI benefits when they qualify for Social Security early aged widow's or widower's benefits beginning at age 60. The 1987 Budget Reconciliation Act provides that such individuals, who otherwise qualify for SSI on the basis of blindness or disability, will be deemed to be an SSI recipient for purposes of Medicaid eligibility until they become eligible for Medicare. This provision has been effective since July 1, 1988.

ELIGIBILITY OF SSI RECIPIENTS FOR FOOD STAMPS

Except in California and Wisconsin, SSI beneficiaries may qualify for food stamps if they meet the food stamp income and assets requirements. In these two States, the food stamp program is "cashed out"—in other words, these States have chosen to increase State SSI supplemental payments in lieu of food stamps.

The interaction with the food stamp program has important financial implications for a State which desires to increase the income of its SSI recipients by $1.00. Because food stamps are reduced by $0.30 for each additional $1.00 of SSI income including State supplements, the State must expend $1.43 to obtain an effective $1.00 increase in SSI recipients' total income.

CHARACTERISTICS OF THE SSI POPULATION

As shown in table 13, in September 1988, 4.434 million persons received federally administered SSI payments. Of these, 1.434 million received federally administered payments on the basis of being aged, 2.917 million on the basis of being disabled, and 82,740 on the basis of blindness. However, approximately 566,000 of those receiving benefits on the basis of disability or blindness were over the age of 65. Table 12 also indicates that approximately 2.6 million of those receiving federally administered SSI payments only receive Federal SSI payments, 1.5 million receive a combination of federally financed and State financed payments, and 371,611 receive State financed supplementation only.

Table 11 shows the trends in the numbers of persons receiving federally administered SSI payments from December 1975 through September 1987, both by reason for eligibility and by age categories. There was a steady decline in the number of SSI recipients from 1975 until 1983. However, in the last 5 years the number of SSI recipients has increased by 616,000.

In summary, the trends in the nature of the SSI population show the following:

—A steady decline in the number of persons receiving SSI benefits on the basis of age.

—A steady increase from 107,000 in December 1975 to 254,000 in 1988 of the number of disabled and blind children under 18 receiving SSI benefits.

—A steady increase from 201,000 in December 1975 to 570,000 in September 1988 in the number of persons receiving benefits on the basis of disability or blindness who were age 65 and older.

—A recent sharp increase of 478,000 between 1983 and 1988 in the number of persons ages 22–64 receiving benefits on the basis of disability or blindness which had been preceded by a decline of 66,000 between 1978 and 1982.

Characteristics of SSI recipients receiving benefits on the basis of age

Age.—As shown in table 15, of those SSI recipients receiving benefits on the basis of age, i.e., age 65 or older, 40.7 percent are 80 years of age or older. This is in contrast to the fact that only 21 percent of the population 65 years old or older are age 80 or older.

Sex.—As shown in table 16, 74.9 percent of those receiving benefits on the basis of age are women.

Race.—Some 19.7 percent of aged SSI recipients are black compared to 8 percent of the total population age 65 and older who are black.

Other income.—As shown in table 17, 71 percent of the SSI recipients receiving benefits on the basis of age also receive Social Security benefits. Only 1.5 percent have earned income.

Characteristics of adult SSI recipients receiving benefits on the basis of disability or blindness

Major disabling diagnosis.—As shown on table 19, of the SSI disabled ages 18–64, 26.9 percent were eligible on the basis of mental retardation; and 24.1 percent on the basis of other mental disorders. Therefore, over one-half of all SSI disabled recipients are eligible on the basis of a mental disability. The next three largest categories are: diseases of the nervous system and sense organs—12.7 percent; diseases of the circulatory system—8.3 percent; and diseases of musculoskeletal and connective tissues—7.3 percent. In comparison, only 25 percent of the Social Security disabled workers are eligible on the basis of a mental disorder; 20 percent of recipient's major disabling diagnosis was circulatory disorders; and musculoskeletal impairments account for 18 percent. Related to the nature of the impairments of the SSI disabled is the fact that in December 1986, 686,614 or 28 percent of the adult disabled receiving SSI benefits had a representative payee. Representative payees are individuals, agencies or institutions selected by the Social Security Administration to receive and use SSI payments on behalf of the SSI recipient when it has been found necessary by reason of the mental or physical limitations of the recipient.

Age.—When a person who is receiving SSI on the basis of blindness or disability becomes age 65, the Social Security Administration does not convert the individual to eligibility on the basis of age. As shown in table 15, 21 percent of the SSI adult population receiving benefits on the basis of disability are over age 65.

Sex.—In September 1988, 58.4 percent of those receiving SSI benefits on the basis of disability and 57.5 percent on the basis of blindness were women.

Race.—In September 1988, 55.2 percent of those receiving SSI on the basis of disability were white; 27.3 percent were black; 3.8 percent were other races; and in 13.7 percent of the cases, race was not reported.

Other income.—As shown in table 17, 37.1 percent of the disabled and 38.7 percent of the blind received Social Security benefits. Table 18 shows the number of SSI recipients with other sources of unearned income.

Of the disabled receiving SSI, 5.6 percent had earned income in September 1988. Of the blind, 7.2 percent had earned income in that month.

Characteristics of disabled or blind children receiving SSI

In a study completed in 1979, it was found that 15 percent of all SSI children were in foster care and under the protective custody of State welfare departments or other social welfare agencies or institutions. For over one-half of these children their main disability was mental retardation. They had lived away from their parents an average of 7.5 years and had little or no contact with their parents. In two-thirds of the cases, the children had been placed voluntarily in foster care by their parents.

For those SSI children not in foster care, 42 percent lived in households that had received AFDC or State or local general assistance during the previous year. For the disabled children not in foster care receiving SSI benefits, mental retardation was the main disability in 27 percent of the cases. Other disabling conditions for this group of children included: other diseases of the nervous system (epilepsy, muscular dystrophy, etc.) 15 percent; other mental conditions (schizophrenia, psychosis, etc.) 15 percent; and congenital anomalies (spina bifida, Down's syndrome and hydrocephalus, etc.) 11 percent.

TABLE 13.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF PAYMENT, SEPTEMBER 1988

Type of payment	Total	Aged	Blind	Disabled
	Number of persons			
Total	4,434,069	1,433,924	[1] 82,740	[2] 2,917,405
Federal SSI payments	4,062,458	1,246,865	74,076	2,741,517
Federal SSI payments only	2,564,494	829,645	42,785	1,692,064
Federal SSI and State supplementation	1,497,964	417,220	31,291	1,049,453
State supplementation	1,869,575	604,279	39,955	1,225,341
State supplementation only	371,611	187,059	8,664	175,888
	Average monthly amount			
Total	$258.91	$187.55	$305.62	$292.66
Federal SSI payments	226.34	155.77	248.75	257.83
State supplementation	122.23	123.61	171.69	119.94

[1] Includes approximately 23,000 persons aged 65 or over.

[2] Includes approximately 543,000 persons aged 65 or over.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 14.—SSI: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE: DECEMBER 1975 AND 1978, JUNE 1982, SEPTEMBER 1983, 1986, 1987, AND 1988

[In thousands]

Reason for eligibility and by age categories	December 1975	December 1978	June 1982	September 1983	September 1986	September 1987	September 1988
Total	4,314	4,217	3,957	3,898	4,232	4,351	4,434
Reason for eligibility:							
Aged	2,307	1,968	1,626	1,528	1,476	1,455	1,434
Blind	74	77	78	79	83	83	83
Under 18	3	5	6	6	7	7	7
18–21	4	3	4	5	5	4	4
22–64	46	43	44	45	48	49	49
65 and over	22	25	24	23	23	23	22
Disabled	1,933	2,172	2,253	2,292	2,673	2,813	2,917
Under 18	104	161	188	191	231	243	247
18–21	90	111	117	122	138	136	136
22–64	1,559	1,581	1,514	1,517	1,787	1,902	1,987
65 or over	179	319	434	462	517	533	548
Age:							
Under 18	107	166	194	197	238	250	254
18–21	93	115	121	127	143	141	140
22–64	1,605	1,624	1,558	1,562	1,835	1,951	2,036
65 and over	2,508	2,312	2,084	2,013	2,016	2,010	2,003

Source: Office of Research and Statistics, Social Security Administration.

TABLE 15.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL ADULTS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE, SEPTEMBER 1988

	Total	Aged	Blind	Disabled
Total number	4,144,038	1,433,924	74,663	2,635,451
Total percent	100.0	100.0	100.0	100.0
18–21	2.5		3.8	3.8
22–29	9.2		14.4	14.1
30–39	10.8		15.9	16.6
40–49	9.1		11.4	14.0
50–59	12.0		14.6	18.4
60–64	8.0		9.7	12.3
65–69	12.2	17.7	8.8	9.3
70–74	11.2	19.9	6.9	6.6
75–79	10.5	21.7	6.0	4.5
80 or older	14.5	40.7	8.5	.4

Source: Office of Research and Statistics, Social Security Administration.

TABLE 16.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY, RACE, AND SEX, SEPTEMBER 1988

Race and sex	Total	Aged	Blind	Disabled
Total number	4,434,069	1,433,924	82,740	2,917,405
Total percent	100.0	100.0	100.0	100.0
Race:				
White	52.0	45.5	54.0	55.2
Black	24.8	19.7	25.7	27.3
Other	4.9	7.2	5.4	3.8
Not reported	18.2	27.6	14.9	13.7
Sex and race:				
Men	36.3	25.1	42.5	41.6
White	19.3	10.3	24.2	23.6
Black	8.7	4.2	10.3	10.9
Other	1.9	2.4	2.4	1.7
Not reported	6.3	8.3	5.7	5.4
Women	63.7	74.9	57.5	58.4
White	32.7	35.2	29.8	31.5
Black	16.1	15.6	15.4	16.4
Other	3.0	4.8	3.0	2.1
Not reported	11.9	19.3	9.2	8.4

Source: Office of Research and Statistics, Social Security Administration.

TABLE 17.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND PERCENT IN CONCURRENT RECEIPT OF INCOME AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF INCOME, SEPTEMBER 1988

Type of income	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,434,069	1,433,924	82,740	2,917,405
	Number			
Social security benefits	2,127,713	1,013,972	32,041	1,081,700
Other unearned income	549,743	249,092	9,257	291,394
Earned income	190,403	21,663	5,925	162,815
	Average monthly income			
Social security benefits	$275.53	$280.80	$289.45	$270.18
Other unearned income	86.16	79.03	86.10	92.25
Earned income	171.30	176.58	494.60	158.83

Source: Office of Research and Statistics, Social Security Administration.

TABLE 18.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS AND UNEARNED INCOME (OTHER THAN SOCIAL SECURITY) AND AVERAGE MONTHLY UNEARNED INCOME, BY TYPE OF INCOME, DECEMBER 1988

Type of income	Number [1]	Average [2]
Total	552,482	$85.92
Veterans' benefits	123,759	136.03
Railroad retirement	6,082	266.34
Black lung benefits	1,959	246.22
Employment pensions	37,660	100.87
Worker's compensation	2,268	213.15
Support and maintenance in kind	159,071	82.34
Support from absent parents	18,464	123.25
Asset income	144,124	9.50
Assistance based on need	8,049	107.20
Other	51,046	130.16

[1] With unearned income other than social security benefits.

[2] Monthly amount of unearned income.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 19.—DISABILITY DIAGNOSIS OF SSI, SECTION 1619, AND SOCIAL SECURITY DISABILITY RECIPIENTS: 1987

[Percentage distribution by diagnostic group]

Diagnostic group	Supplemental security income—SSI			Social Security disability insurance—SSDI			
	All SSI disabled 18–64 yrs.[1]	SSI sec. 1619(a) participants[2]	SSI sec. 1619(b) participants[2]	All SSDI disabled workers[3]	SSDI disabled workers under age 40[3]	SSDI disabled widows and widowers[4]	SSDI disabled adult children[5]
Individuals	1,723,900	17,813	15,641	2,774,200	496,900	105,300	567,000
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Infectious and parasitic diseases	.8	1.0	1.1	1.0	.7	1.6	.7
Neoplasms	1.9	1.2	2.3	3.5	2.4	2.9	.5
Endocrine, nutritional, and metabolic disorders	4.3	1.4	2.4	3.7	2.8	9.9	.5
Diseases of blood and blood-forming organs	.7	.5	.6	.2	.6	0	.5
Mental disorders (other than mental retardation)	24.1	30.4	36.7	21.4	37.6	17.9	12.6
Mental retardation	26.9	41.6	24.6	4.7	12.7	6.2	63.3
Diseases of:							
Nervous system and sense organs	12.7	14.0	16.2	11.0	14.9	12.4	13.7
Circulatory system	8.3	1.7	2.9	20.2	3.5	20.1	.6
Respiratory system	3.1	.6	.8	4.8	.7	10.4	.3
Digestive system	1.1	.2	.7	1.6	1.2	1.3	.2
Genitourinary system	1.0	1.2	1.6	1.1	1.7	.6	.4
Skin and subcutaneous tissue	.2			.4	.3	.5	.1
Musculoskeletal system	7.3	2.3	3.8	18.2	7.7	13.7	1.1

Congenital anomalies	2.5	1.4	1.2	1.0	1.1	.6	3.3
Injuries	3.2	2.0	4.3	6.7	11.5	1.4	1.7
Other	1.9	.4	.8	.5	.6	.7	.6

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[1] For an estimated 1,306,500, diagnosis was available from the 1-percent sample file. This figure is from a total of 1,723,900 disabled adults aged 18–64 receiving federally administered SSI payments in December, 1987. The 265,300 disabled adults who were transferred from the pre-SSI State APTD programs are not included.

[2] Information on diagnosis of section 1619 participants is available from SSI files only for persons applying since 1982. These data are for September 1988. Percentages shown are based on diagnosis information of 8,706 1619(a) participants and 7,480 1619(b) participants.

[3] Based on 1-percent sample of those 2,560,600 individuals for whom diagnosis information was available of the 2,774,200 disabled workers in current pay status in December, 1987.

[4] Based on 1-percent sample of those 87,600 individuals for whom diagnosis information was available of the 105,300 disabled adult children in current-pay status in December, 1987.

[5] Based on 1-percent sample of those 567,000 individuals for whom diagnosis information was available of the 221,200 disabled widows and widowers in current pay status in December 1987.

Source: Social Security Administration.

SPECIAL SSI BENEFITS, MEDICAID SERVICES, AND RELATED PROVISIONS FOR THE WORKING DISABLED

Historical development of provisions to remove work disincentives for the SSI disabled

Earned income disregards.—Since the inception of the SSI program in January 1974, a portion of the earned income of SSI recipients has been disregarded in determining the eligibility for and the amount of SSI benefits payable. Earned income disregards were included in the pre-SSI federally assisted State programs for the aged, blind, and disabled.

Social Security Disability Amendments of 1980 (P.L. 96-263)—Section 1619 temporary demonstration program.—Prior to the enactment of the section 1619 program in 1980, a disabled SSI recipient who worked faced a substantial risk of losing SSI benefits and frequently, Medicaid. Work was treated the same way it is now treated under the Social Security disability insurance (SSDI) program: after a trial work period, work at the substantial gainful activity (SGA) level led to the loss of disability status and eventually benefits—even if the individual's total income and resources were well within the SSI need criteria. Thus, disabled individuals who could work or, at least, could have tried to work had a disincentive to work because of their fear of losing their SSI benefits or often more importantly their eligibility for health services under Medicaid.

The 1980 amendments established for a 3-year period, beginning January 1, 1981, special provisions under a new section 1619(a) of SSI law, for the provision of special SSI cash benefits to disabled individuals who lost their eligibility for SSI payments because they worked and were declared not disabled. Section 1619(b) provided for special SSI recipient status for Medicaid eligibility purposes for working disabled or blind individuals when they have earnings and their income makes them ineligible for cash payments.

Section 1619 program extended in 1984 and evaluation study conducted.—The Social Security Disability Benefits Reform Act of 1984 (P.L. 98-460) extended the temporary authority of section 1619 through June 30, 1987. At the request of the Committee on Ways and Means, the Department of Health and Human Services conducted a study to evaluate the effectiveness of section 1619 in reducing work disincentives and to determine the characteristics of individuals benefiting from its protection. According to the report, over 55,000 individuals had benefited from the section 1619 program since its inception. The report also indicated that there was a net savings from the provisions of the section 1619 program. The section 1619 report was released July 30, 1986.

Section 1619 made permanent and SSI work incentives simplified.—In 1986, the Employment Opportunities for Disabled Americans Act (P.L. 99-643) made section 1619 permanent and made other modifications in section 1619 and other work-related provisions of SSI law including repeal of the trial work period and extended period of eligibility provisions of SSI disability law.

Establishing SSI disability status and retaining SSI disability status

Establishing SSI disability status—Substantial gainful activity (SGA) determination.—Under the SSI and Social Security disability insurance (SSDI) law, the Secretary of HHS is required to prescribe the criteria for determining when employment or earnings from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA). Current regulations provide that average countable earnings of over $300 a month over an extended period, generally not less than 6 months, indicate that an individual is able to engage in SGA. If an applicant for SSI or SSDI disability benefits has demonstrated the ability to engage in SGA they will not be able to establish an SSI disability status. Current law does provide for a deduction from earnings of extraordinary impairment related work expenses for purposes of determining whether an individual is able to engage in SGA.

Retaining SSI disability status—No SGA determination.—Under the provisions of the 1986 SSI Disability Amendments, Public Law 99-643, disabled individuals on the SSI rolls will retain disability status until they medically recover or their eligibility is terminated for a nondisability reason. A determination that an individual is engaging in substantial gainful activity will not be a factor in retaining SSI disability status. Instead, medical reviews of the individual's disabilities will be conducted to ensure that disability status is not continued for people who have medically recovered. Medical reviews are scheduled based on medical diaries and on work activity. The continuing disability determinations are based on medical improvement criteria.

Repeal of trial work period and extended period of eligibility provisions in SSI effective July 1, 1987

A primary concern with the temporary section 1619 program from its inception in 1981, was the complexity of the various provisions in SSI law which affected the amount of benefits and status of disabled SSI recipients who attempted to work. The section 1619 provisions were in addition to and not a replacement for the trial work period (TWP) and extended period of eligibility provisions in SSI law.

Under the TWP provision a disabled SSI recipient was permitted to work up to 9 months—not necessarily consecutive—before a determination was made as to whether earnings constitute substantial gainful activity (SGA). The TWP provision required determinations by SSA as to whether earnings in a particular month (over $75) constitutes a month of trial work. Eligibility for regular SSI benefits was retained during this time as long as the individual's unearned and earned income (as reduced by income disregards) did not exceed the SSI benefit standard.

When an individual completed a total of 9 months of trial work and was determined to be performing work constituting SGA, he or she lost eligibility for regular SSI benefits 3 months after the 9-month period. If performing SGA was determined, then the individual went into section 1619 status.

Following the close of the trial work period, there was an additional one-time 15 month period (consecutive months; working or not) of an extended period of eligibility (EPE). During this period an individual who had not been receiving a regular SSI payment because of work activities above the $300 SGA level could be reinstated to regular SSI benefit status without having his or her medical condition reevaluated.

The trial work period and extended period of eligibility provisions of SSI law were repealed effective July 1, 1987. As explained earlier, since a determination of whether an individual is engaging in SGA is not a factor in retaining SSI disability status, the trial work period served no practical purpose. The one-time extended period of eligibility was replaced with a provision which allows use, without a one-time limit, of a suspended eligibility status" to protect the disability status of the disabled who attempt work.

The trial work period and extended period of eligibility is still a part of the Social Security disability insurance program and thus affects the SSI disabled who are concurrently eligible for SSI and SSDI. Therefore, a concurrent recipient may retain SSDI during a trial work period but then lose their SSDI benefits. The SSI payments would then increase to make up for the loss of the SSDI benefit.

Summary of section 1619 provisions intended to remove work disincentives for the disabled

Section 1619(a) of SSI law provides for the continuation of cash benefits for those SSI recipients who are receiving benefits on the basis of disability even if they are working at the SGA level and as long as there is not a medical improvement in the disabling condition. The amount of their cash benefits is gradually reduced as their earnings increase under the income disregard formula until their countable earnings reach the SSI benefit standard or what is known as the "breakeven point". In a State with no supplementation, as shown in table 3, this earned income eligibility limit is $821 per month in 1989. People who receive the special SSI benefits continue to be eligible for Medicaid on the same basis as regular SSI recipients. States have the option of supplementing the Federal benefits standard for those entitled to benefits under this provision. The "breakeven point" increases $2 for every $1 of State supplementation above the Federal SSI benefit standard.

Under section 1619(b), individuals can continue to be eligible for Medicaid even if their earnings take them past the SSI income disregard "breakeven point." This special eligibility status, under which the individual is considered a blind or disabled individual receiving SSI benefits for purposes of Medicaid eligibility, applies as long as the individual: (1) continues to be blind or have a disabling impairment; (2) except for earnings, continued to meet all the other requirements for SSI eligibility; (3) would be seriously inhibited from continuing to work by the termination of eligibility for Medicaid services; and (4) had earnings that are not sufficient to provide a reasonable equivalent of the benefits (SSI, State supplementary payments, and Medicaid) that would have been available if he or she did not have those earnings.

In making an initial determination under the fourth criterion, the Social Security Administration decided to compare the individual's gross earnings to a "threshold" amount; i.e., the average expenditures for Medicaid benefits for disabled SSI cash recipients in the individual's State of residence. In other words, Medicaid eligibility continues until the individual's earnings reach a higher plateau which takes into account the person's ability to afford medical care as well as his or her normal living expenses, or they medically recover.

Under the provisions of Public Law 99-643, which was effective July 1, 1987, a disabled individual also has the ongoing protection of being able to be reinstated to eligibility to cash assistance benefits under regular SSI or 1619(a), or Medicaid only eligibility under 1619(b) if their work attempt fails or their physical or mental disability makes their ability to work very erratic. This protection is not indefinite, but the Social Security Administration, under the provisions of Public Law 99-643, will not terminate the disability status of an individual for 12 months after they were last eligible for regular SSI or eligible under section 1619(a) or 1619(b). However, if the individual recovers medically a new application and new disability determination would be required to establish a new period of eligibility.

An overview of SSI disability policy changes related to new assumptions for evaluating work efforts by the severely disabled

The section 1619 program was originally enacted as a temporary demonstration program for the purposes of determining whether the continuation of cash and medical benefits for the severely disabled would be effective in lessening the dependence of the disabled on SSI benefits. However, certain provisions of the section 1619 law and the one-time trial work period/extended period of eligibility provisions were still based on the assumption that a continuing work effort by a disabled individual was an indication of the immediate or eventual capability of the individual to become self-supporting. That is, it was assumed that a severely disabled individual would be able to make a steady progression from regular SSI status, to special cash benefit status under section 1619(a), to Medicaid-only status under section 1619(b) and eventually become self supporting.

Section 1619 provisions which expressed this assumption included (1) an individual eligible under 1619(b) who has a decrease in income could not be directly reinstated to cash benefit status; and (2) if an individual has been eligible under 1619 and some event causes him or her to be ineligible for a month, the individual could not return to 1619 status. (Temporary loss of eligibility may occur for example, because of: one-time increases in earnings for a month; excess resources; or changes in living arrangements; e.g., temporary hospitalization.)

A primary goal of the 1986 disability amendments was to ensure ongoing assistance to the severely disabled who are able to do at least some work but who oftentimes have fluctuating levels of income, and whose ability to work changes because of health reasons or the availability of special support services which may be needed to enable the individual to work.

The House and Senate reports accompanying the legislation which became Public Law 99-643 explains the new assumptions which led to the amendments to section 1619 and the repeal of the SSI provisions for a trial work period and extended period of eligibility:

> The Committee amendment also recognizes the reality that severely impaired individuals who make work attempts may not be able to follow a steady progression from SSI status, to special benefit status under section 1619(a), to medicaid only status under section 1619(b), and then to a status of complete independence. In practice, such individuals tend to undergo a more varied experience, often involving some setbacks which would require them to reestablish eligibility for an earlier category of benefits. To accommodate this reality, the Committee provides a relatively simple transition, in either direction, among the various categories of benefits. Actual determinations of eligibility are only required in limited and specified circumstances (although the Secretary retains the discretion to review the continuing eligibility of recipients on a periodic basis and whenever there is an indication that there may have been a change in medical condition or other element of eligibility).
>
> Further, the Committee amendment would make explicit in statute the current administrative practice, which requires the filing of a new application for SSI, only in cases where the individual has been ineligible for a period in excess of 12 consecutive months. While the 15-month automatic reentitlement period is being eliminated by these amendments, a disabled person who becomes ineligible for SSI or 1619 benefits for a period of 12 or fewer months may be reinstated without having first to be determined disabled.

Characteristics of section 1619 participants

In summary, disabled SSI recipients who work and are eligible for cash benefits and/or Medicaid under the section 1619 provisions of SSI differ from the total population of the SSI disabled by being younger, and more likely to be disabled on the basis of a mental retardation or mental illness. Section 1619(a) refers to recipients who receive special cash and Medicaid while section 1619(b) refers to recipients only receiving continuation of Medicaid coverage.

Age.—As shown in table 20, 42.9 percent of the section 1619 participants are 22-29 years of age compared to 17.4 percent of all disabled SSI recipients between the ages of 18 and 64.

Disability diagnosis.—As shown in table 19, 72 percent of the 1619(a) participants and 61.3 percent of the 1619(b) participants are eligible on the basis of mental retardation or mental illness. In comparison, approximately 51 percent of the SSI disabled 18 through 64 years of age are eligible on the basis of mental retardation or mental illness.

Concurrent SSI and Social Security disability insurance recipients under section 1619.—Table 21 indicates that 15.3 percent of section

1619(a) participants are concurrent recipients of SSI and SSDI benefits compared to 57.3 percent of section 1619(b) participants and 30 percent of all disabled SSI recipients.

Earnings levels.—Table 22 shows the earnings levels by numbers and percentage distribution of section 1619(a) and section 1619(b) participants. As can be seen from the table, less than 40 percent of section 1619(b) participants have earned income which exceeds the SSI earned income breakeven point in a State without State supplementation, i.e., $821 a month. The fact that 57 percent of the section 1619(b) participants are concurrent SSI and SSDI recipients is a primary reason for this situation. Only $20 a month of Social Security income is disregarded. The result is that an individual with such income becomes ineligible for cash benefits at a much lower total income level than if their income is only in the form of earned income with the higher income disregards, i.e., $85 plus one-half the remaining earnings. For example, a mentally retarded individual receiving SSI whose father is retired and receiving Social Security benefits may qualify as a "disabled adult child" and receive SSDI benefits on his fathers earnings record. If the SSDI benefit is $200 a month, and there is no State supplementation of the $368 Federal SSI benefit standard, when his earnings reach $441 a month he would no longer be eligible for cash benefits under section 1619.

TABLE 20.—AGES OF SECTION 1619 PARTICIPANTS AND SSI DISABLED 18–64; NUMBER AND PERCENTAGE DISTRIBUTION, SEPTEMBER 1988

	All disabled SSI recipients ages 18–64		Section 1619 participants ages 18–64	
	Number	Percent distribution	Number	Percent distribution
Total	[1] 2,129,500	100.0	33,155	100.0
Age:				
18–21	139,000	6.5	3,414	10.3
22–29	369,600	17.4	14,213	42.9
30–39	438,200	20.6	8,871	26.8
40–49	376,100	17.7	3,766	11.4
50–59	478,000	22.4	2,057	6.2
60–64	328,600	15.4	834	2.5

[1] Derived from the SSI 1-percent sample file for September 1988.

Source: Office of Supplemental Security Income, Social Security Administration.

TABLE 21.—CONCURRENT SECTION 1619 AND SOCIAL SECURITY DISABILITY INSURANCE RECIPIENTS; NUMBERS AND PERCENTAGE, SEPTEMBER 1988

	Total	Social Security disability recipients	
		Number	Percent
All disabled SSI recipients ages 18–64	2,176,600	653,900	30.0
Section 1619(a) participants	17,813	2,732	15.3
Section 1619(b) participants	15,641	8,958	57.3

Source: Office of Research and Statistics and Office of Supplemental Security Income, Social Security Administration.

TABLE 22.—EARNINGS LEVELS OF SECTION 1619 PARTICIPANTS; NUMBER AND PERCENTAGE DISTRIBUTION, SEPTEMBER 1988

	1619(a)		1619(b)	
	Number	Percent	Number	Percent
Total	17,813	100	15,641	100
Under $400	5,378	30.2	4,684	29.9
$400–$499	4,298	24.1	1,264	8.1
$500–$599	3,117	17.5	1,206	7.7
$600–$699	2,253	12.6	1,332	8.5
$700–$899	1,986	4.1	2,415	15.4
$900–$1,199	650	3.6	2,613	16.7
$1,200 or more	131	.7	2,127	13.6

Source: Office of Supplemental Security Income, Social Security Administration.

Summary of 1986 SSI Disability Amendments to section 1619

The 1986 SSI disability amendments made the section 1619 provisions in SSI law permanent.

The amendments also provided for ongoing assistance for those disabled individuals who, under the old law, which was in effect until July 1, 1987, were in jeopardy of losing their cash benefits or medicaid or the ability to be reinstated to such assistance when there was a significant change in their income or other situation affecting their eligibility.

The amendments to the section 1619 provisions of SSI law can be explained by adding to the pre July 1, 1987 categories of SSI-related eligibility (i.e., SSI, 1619(a), and 1619(b)) the new SSI-related eligibility category of "suspended eligibility status." This new category is a way to identify those individuals who were previously eligible within the last 12 months for SSI or under 1619(a) or 1619(b). Therefore, the categories of SSI-related eligibility under the new law, are as follows:

—eligible for regular SSI cash benefits;
—eligible for cash benefits under 1619(a);
—eligible for Medicaid only under 1619(b); and

- —suspended eligibility status; i.e., was eligible within previous 12 months under regular SSI or 1619.

The amendments are based on the assumption that an individual who previously has been found to be eligible for SSI on the basis of disability, but is able to work in spite of a disability, needs ongoing assistance until there is a finding of substantial evidence of medical improvement.

The new general rule for those individuals who previously had been found eligible for SSI disability status is to allow movement to another category or eligibility status. The new rule will allow for freedom of movement from one eligibility status to another when an individual has increases or decreases in earned or unearned income or is otherwise temporarily ineligible under regular SSI or section 1619 for some other reason.

The changes in present law which were effective July 1, 1987, which will provide for this freedom of movement and thus greater assurances of ongoing assistance were as follows:

Repeal of trial work period-extended period of eligibility.—The old law's trial work period and extended period of eligibility provisions were repealed. These provisions had allowed a continuation of benefits as under 1619(a), but only for 9 months of work during a trial work period, and reinstatement to regular SSI status if an individual was unable to maintain earnings during the extended period of eligibility.

Reinstatement to SSI or section 1619 status from "suspended eligibility status".—An individual who becomes ineligible for SSI, section 1619(a) or 1619(b) is considered in a "suspended eligibility status" for up to 12 months. From "suspended eligibility status" an individual can be reinstated to regular SSI or section 1619 status without having to be determined eligible for SSI on the basis of disability as if he or she were a new applicant.

Movement from section 1619(b) medicaid-only status to cash benefit status.—In comparison to prior law, an individual eligible for medicaid only under section 1619(b) who has a decrease in income, can become eligible for cash benefits under section 1619(a) or regular SSI without having to be determined eligible for SSI on the basis of disability as if he or she were a new applicant.

Medical condition reviews.—The new law explicity requires two levels of reviews of the medical condition of the individual when there is movement between the eligibility cagetories: These are:

- —within 12 months of an individual becoming eligible under section 1619, a medical review of the individual's case will be required to determine the continuation of the disabling impairment which was the basis of the individual being found to be disabled under SSI.
- —promptly after an individual has been reinstated to cash benefit status under regular SSI or section 1619(a) from medicaid-only status under section 1619(b), or reinstated to regular SSI or section 1619 status from a "suspended eligibility status" certain higher earnings individuals will have a review of medical eligibility to determine that there is no substantial evidence of medical improvement. This "medical improvement review" would apply only to those individuals who had earnings before moving to cash benefit status from section 1619(b) or sometime

during the time of "suspended eligibility status" which exceeded the SSI Federal income standard earned income disregards breakeven point; i.e., $821 a month.

Countable earnings and "equivalent" benefits in determining eligibility for Medicaid under section 1619(b).—Effective July 1, 1987, the following costs are to be subtracted from the amount of an individual's earnings in determining whether an individual's earnings provide a "reasonable equivalent" of benefits which the individual otherwise would be entitled to in the absence of earnings: impairment related work expenses of the disabled; work expenses of the blind; cost of a plan for achieving self support (PASS); and publicly funded attendant care services or personal care assistance. It also requires that the "reasonable equivalent" of benefits criteria under section 1619(b), be based on information and data that are updated at least once a year.

TABLE 23.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS, BY STATE, DECEMBER 1988

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
Total	4,463,869	1,433,420	82,864	2,947,585	270,141
Alabama	130,049	52,856	1,714	75,479	13,898
Alaska	4,130	1,121	83	2,926	[3] 4,726
Arizona	39,072	11,013	711	27,348	4,294
Arkansas	73,559	29,639	1,272	42,648	....
California	774,936	292,841	20,900	461,195	....
Colorado	34,134	8,861	451	24,822	28,643
Connecticut	29,478	6,448	503	22,527	19,735
Delaware	7,785	1,792	143	5,850	....
District of Columbia	16,498	3,631	225	12,642	....
Florida	202,240	78,792	3,112	120,336	10,798
Georgia	154,811	53,398	2,732	98,681	....
Hawaii	12,852	5,322	178	7,352	....
Idaho	9,252	1,943	147	7,162	[3] 2,985
Illinois	157,904	30,044	2,437	125,423	50,768
Indiana	54,704	10,528	1,200	42,976	891
Iowa	30,931	8,175	1,066	21,690	....
Kansas	22,873	5,186	360	17,327	....
Kentucky	105,760	30,215	2,030	73,515	6,689
Louisiana	129,402	43,211	2,286	83,905	....
Maine	22,862	7,197	273	15,392	....
Maryland	56,364	14,313	803	41,248	1,012
Massachusetts	113,675	47,636	4,550	61,489	....
Michigan	131,891	26,714	2,084	103,093	....
Minnesota	36,835	9,647	648	26,540	12,404
Mississippi	112,473	44,751	1,682	66,040	....
Missouri	81,383	23,543	1,157	56,683	[4] 7,525

TABLE 23.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS, BY STATE, DECEMBER 1988—Continued

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
Montana	8,923	1,852	130	6,941	....
Nebraska	14,706	3,547	262	10,897	6,413
Nevada	9,749	3,970	511	5,268	....
New Hampshire	6,439	1,507	108	4,824	4,222
New Jersey	98,165	29,083	1,220	67,862	....
New Mexico	28,570	9,173	538	18,859	268
New York	379,928	111,836	4,081	264,011	....
North Carolina	142,361	49,768	2,622	89,971	[4] 14,368
North Dakota	7,237	2,294	82	4,861	6
Ohio	142,033	23,439	2,435	116,159	....
Oklahoma	58,829	21,356	966	36,507	55,613
Oregon	28,514	6,298	572	21,644	14,921
Pennsylvania	176,369	42,245	2,953	131,171	....
Rhode Island	16,427	4,840	210	11,377	....
South Carolina	88,061	30,469	1,830	55,762	3,078
South Dakota	9,319	2,873	140	6,306	308
Tennessee	133,591	43,917	2,002	87,672	....
Texas	274,397	117,774	4,988	151,635	....
Utah	10,558	1,752	243	8,563	....
Vermont	9,656	2,725	115	6,816	....
Virginia	89,971	29,577	1,469	58,925	5,508
Washington	54,769	11,203	785	42,781	....
West Virginia	44,780	9,551	677	34,552	....
Wisconsin	80,794	22,279	1,112	57,403	....
Wyoming	2,842	715	47	2,080	1,068
Unknown	438	283	2	153	....
Other areas:					
Northern Mariana Islands [3]	590	277	17	296	....

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[1] Includes persons with Federal SSI payments and/or federally administered State supplementation, unless otherwise indicated.

[2] Represents September 1988 data.

[3] Data estimated.

[4] Represents mandatory supplementation data only.

Source: Office of Research and Statistics and Office of Supplemental Security Income, Social Security Administration.

TABLE 24.—STATE SSI SUPPLEMENTS FOR AGED INDIVIDUALS WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY [1]

State	July 1975	July 1980	Jan. 1985	Jan. 1986	Jan. 1987	Jan. 1988	Jan. 1989	Percent increase (constant dollars) 1975–89 [1]
Alaska [2]	$142	$235	$261	$269	$292	$305	$317	0
California	101	164	179	197	220	221	234	4
Colorado	27	55	58	58	58	58	58	0
Connecticut	NA	NA	NA	NA	NA	393	384	....
District of Columbia	0	15	15	15	15	15	15	....
Hawaii	17	15	5	5	5	5	5	−87
Idaho	63	74	78	72	73	73	73	−48
Illinois [3]	NA	NA	NA	NA	NA	NA	NA	....
Maine	10	10	10	10	10	10	10	−55
Massachusetts	111	137	129	129	129	129	129	−48
Michigan	12	24	27	28	29	30	30	11
Minnesota [4]	31	34	35	35	35	35	35	−49
Nebraska	67	75	61	62	51	43	38	−74
Nevada	55	47	36	36	36	36	36	−71
New Hampshire	12	46	27	27	27	27	27	0
New Jersey	24	23	31	31	31	31	31	−42
New York	61	63	61	72	72	72	86	−37
Oklahoma	27	79	60	64	64	64	64	6
Oregon	17	12	2	2	2	2	2	−95
Pennsylvania	20	32	32	32	32	32	32	−29
Rhode Island	31	42	54	56	56	59	61	−13
South Dakota	0	15	15	15	15	15	15	....
Utah	0	10	10	10	9	9	9	....
Vermont	29	41	53	56	57	58	60	−8
Washington [5]	36	43	38	28	28	28	28	−65
Wisconsin	70	100	100	102	102	103	103	−34
Wyoming	0	20	20	20	20	20	20	....
Median [6]	31	43	36	36	36	36	36	−48

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[1] The percentage decrease in constant dollars was computed by inflating July 1975 to January 1989 by the CPI–U price index. A January 1989 figure of 361.6 was used. The July 1975 CPI–U was 162.3.

[2] 1975 and 1980—less if shelter costs less than $35 monthly.

[3] State decides benefit on a case-by-case basis.

[4] Payment level for Hennepin County. State has 10 geographic payment levels.

[5] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

[6] Among the States with a payment, Connecticut and Illinois are classified as having a payment above the median.

Source: Office of Research and Statistics and Office of Supplemental Security Income, Social Security Administration; and committee staff calculations.

TABLE 25.—STATE SSI SUPPLEMENTS FOR AGED COUPLES WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY

State	July 1975	July 1980	Jan. 1985	Jan. 1986	Jan. 1987	Jan. 1988	Jan. 1989	Percent increase (constant dollars) 1975–89 [1]
Alabama	$9	0	0	0	0	0	0	–100
Alaska [2]	183	$338	$371	$383	$427	$444	$462	13
California	251	389	448	485	529	534	563	0
Colorado	133	229	278	284	286	292	299	1
Connecticut	NA	NA	NA	NA	NA	602	551	....
District of Columbia	0	30	30	30	30	30	30	....
Hawaii	28	24	9	9	9	9	9	–85
Idaho	49	80	46	40	44	44	43	–61
Illinois [3]	NA	NA	NA	NA	NA	NA	NA	....
Maine	15	15	15	15	15	15	15	–55
Massachusetts	173	214	202	202	202	202	202	–48
Michigan	18	36	40	42	44	45	45	13
Minnesota [4]	38	44	66	66	66	66	66	–22
Nebraska	67	114	89	92	78	66	60	–60
Nevada	106	90	74	74	74	74	74	–69
New Hampshire	0	42	21	21	21	21	21	....
New Jersey	13	12	25	25	25	25	25	–14
New York	76	79	76	93	93	93	102	–40
Oklahoma	54	158	120	128	128	128	128	7
Oregon	17	10	0	0	0	0	0	–100
Pennsylvania	30	49	49	49	49	49	49	–27
Rhode Island	59	79	102	105	106	111	115	–12
South Dakota	0	15	15	15	15	15	15	....
Utah	0	20	20	20	18	18	18	....
Vermont	61	76	96	101	104	106	109	–20
Washington [5]	40	44	37	22	22	22	22	–75
Wisconsin	105	161	161	164	164	166	166	–29
Wyoming	0	40	40	40	40	40	40	....
Median [6]	57	63	66	66	66	66	60	–53

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[1] The percentage decrease in constant dollars were computed by inflating July 1975 to January 1989 by the CPI-U price index. The July 1975 CPI-U was 162.3. A January 1989 figure of 361.6 was used.

[2] 1975 and 1980—less if shelter costs less than $35 monthly.

[3] State decides benefit on a case-by-case basis.

[4] Payment level for Hennepin County. State has 10 geographic payment levels.

[5] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

[6] Among the States with a payment Illinois is not classified. Connecticut is classified as having a payment above the median.

Source: Office of Research and Statistics and Office of Supplemental Security Income, Social Security Administration; and committee staff calculations.

Section 10. Title XX Social Services Block Grant Program

TITLE XX SOCIAL SERVICES 1974–1981

In 1974, Congress enacted Public Law 92–672, which created a new title XX of the Social Security Act authorizing an entitlement for States for social services funds with certain goals for the program, public participation planning requirements, limitations on activities which could be funded, and eligibility requirements. Prior to that time the States were entitled to receive Federal matching funds for social services under the various public assistance titles of the Social Security Act. In 1972, Congress established a $2.5 billion annual ceiling on the entitlement with each State's share determined on the basis of its population relative to the total population of all the States. When title XX was enacted, the $2.5 billion ceiling was retained along with the allocation formula. Table 1 shows the title XX funding levels from the first year of the program through present law.

By fiscal year 1981 the entitlement ceiling for allocation to States for social services was $2.9 billion. In addition, $16.1 million of title XX funds was available for the territories for social services and $75 million was available to the States for staff training costs related to title XX activities. A total of $2,991,100,000 was available to States and territories for social services and training in fiscal year 1981 under title XX. As part of Public Law 96–272, enacted in 1980, the ceiling was increased from $2.9 billion to $3 billion in fiscal year 1982 and was increased by $100 million a year until it reached $3.3 billion in fiscal year 1985.

TITLE XX SOCIAL SERVICES BLOCK GRANT

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) amended title XX of the Social Security Act to establish a "Block Grant to States for Social Services" which combined the funding for social services for the States and territories and social services staff training. Public Law 97–35 reduced the title XX entitlement ceiling to $2.4 billion for fiscal year 1982 and provided for increases to $2.45 billion in fiscal year 1983, $2.5 billion in fiscal 1984, $2.6 billion in fiscal 1985 and $2.7 billion in fiscal 1986 and years thereafter.

The emergency jobs bill (Public Law 98–8), enacted in March 1983, appropriated an additional $225 million for fiscal year 1983 but which also was available for carryover to fiscal year 1984. These additional funds were allocated to the States on the basis of a formula intended to respond to the needs of the unemployed served by the jobs bill. One-half of the funds were allocated on the basis of population; one-third based on the number of unemployed individuals in the State; and one-sixth among those States whose average unadjusted unemployment rate from June 1982 through November 1982 was 9.4 percent or higher. In October 1983, as part of legislation to extend the Federal supplemental compensation program (Public Law 98-135) the title XX ceiling was increased by $200 million for fiscal 1984 to $2.7 billion and by $100 million for fiscal year 1985 to $2.7 billion.

Title XX social services block grant funds are allocated to the States on the basis of population. The allotments for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas from the national total are based on their allocation for fiscal year 1981 reduced to reflect the new total funding level. The 1987 Budget Reconciliation Act (Public Law 100-203) extended eligibility for title XX funds to American Samoa. The Federal funds are available to States without a State matching requirement, compared to the 25-percent State matching required for most of the title XX funds available to States under the old title XX law.

Table 1 shows the title XX funding levels, in both nominal dollars and real 1988 dollars, from fiscal year 1977 and through the current law's entitlement ceiling for fiscal year 1989 and future years. This table also presents funding levels adjusted for population growth in the United States, as well as for prices (column 3). Over the 10-year period (1978 to 1988), title XX funding has declined in real terms by $2,360 million, a reduction of 46 percent. Adjusting further for population growth shows that funding levels fell by over 51 percent. Table 2 shows the total funds available to each State and territory under title XX in fiscal years 1988 through 1990. As part of the sequestration order for fiscal year 1986 under the Gramm-Rudman-Hollings legislation there was a reduction of 4.3 percent or $116 million in title XX funds available to States and territories in fiscal year 1986.

The allocations to the States shown in table 1 for fiscal year 1989 shows for the first time allocation of funds to American Samoa.

The 1987 Budget Reconciliation Act (Public Law 100-203) included a $50 million increase in the title XX entitlement ceiling for fiscal year 1988. These funds were not appropriated. Under present law, the ceiling will return to $2.7 billion in fiscal year 1989 and future years.

The Medicare and Medicaid Patient Program Act of 1987 (Public Law 100-93) amended title XX by adding a new section 2005(a)(9). This new section excludes individuals and entities who have committed acts of fraud or abuse under the Medicaid, Medicare, Maternal and Child Health, or the title XX programs from receiving title XX funds.

SPECIAL TITLE XX FUNDING FOR CHILD DAY CARE STAFF AND PARENT TRAINING RELATED TO PREVENTING CHILD ABUSE

Because of the concern by Congress of reports of child sexual abuse in day care centers, a $25 million increase in title XX funding for fiscal year 1985 was appropriated for use by the States in providing training of child day care staff, State licensing and enforcement officials, and the parents of children in child day care. The earmarked funds were included in the continuing resolution for fiscal year 1985 (Public Law 98-473). States were required to have in effect by September 30, 1985, procedures for screening and conducting background and criminal history checks of child care staff, or one-half of the day care training allotment was to be deducted from the regular State title XX allocation in fiscal year 1986 or 1987. According to HHS, only six States enacted such procedures by the required date.

As required by Public Law 98-473, in January 1985, the Secretary of HHS distributed to States a Model Child Care Standards Act with particular attention to staff training and supervision, employment history checks, and parent visitation.

TABLE 1.—TITLE XX SOCIAL SERVICES BLOCK GRANT FUNDING LEVELS

[In millions of dollars]

Fiscal year	Entitlement ceiling		
	Nominal dollars	1988 dollars	1988 dollars adjusted for population growth
1977	[1] 2,796	5,480	6,123
1978	[1] 2,791	5,110	5,650
1979	[1] 2,991	4,971	5,436
1980	[2] 2,791	4,082	4,411
1981	[2] 2,991	3,936	4,210
1982	[3] 2,400	2,943	3,115
1983	[4] 2,675	3,168	3,320
1984	2,700	3,070	3,188
1985	[5] 2,725	2,991	3,076
1986	[6] 2,584	2,766	2,818
1987	2,700	2,810	2,836
1988	2,700	2,700	2,700
1989 and future years	2,700		

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[1] Included $16 million for Puerto Rico, Guam and the Virgin Islands and $59 million in fiscal year 76, $80 million in fiscal year 77 and $75 million in fiscal years 78 and 79 for title XX staff training.

[2] Included $16.1 million for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas and $75 million for title XX staff training.

[3] Public Law 97-35 eliminated separate funding for title XX staff training.

[4] Includes $225 million appropriated in the emergency jobs bill (Public Law 98-8).

[5] Includes $25 million earmarked for training of day care providers, licensing officials and parents including training in the prevention of child abuse in child care settings.

[6] The entitlement ceiling for fiscal year 1986 was $2.7 billion. However, the Gramm-Rudman-Hollings legislation sequestration of funds for fiscal year 1986 reduced the funding by $116 million to $2.584 billion.

TABLE 2.—TITLE XX SOCIAL SERVICES BLOCK GRANT ALLOCATIONS BY STATE AND TERRITORY

	Fiscal year—		
	1988 actual	1989 estimate	1990 estimate
Total	$2,700,000,000	$2,700,000,000	$2,700,000,000
Alabama	45,222,719	45,144,884	45,041,206
Alaska	5,859,497	5,948,031	6,057,982
American Samoa	0	176,282	176,117
Arizona	35,843,025	36,534,720	38,731,719
Arkansas	26,530,811	26,420,840	26,243,966
California	296,517,528	300,531,480	306,988,787
Colorado	36,337,877	36,389,917	36,632,202
Connecticut	35,696,819	35,521,104	35,374,679
Delaware	6,995,407	7,050,755	7,096,806
District of Columbia	7,040,393	6,972,785	6,746,886
Florida	127,829,251	130,043,552	133,942,640
Georgia	67,209,890	67,990,222	69,808,949
Guam	465,517	465,517	465,517
Hawaii	11,853,953	11,829,229	12,039,419
Idaho	11,302,868	11,172,050	11,033,401
Illinois	129,729,932	128,684,639	126,670,874
Indiana	61,845,245	61,295,903	60,481,406
Iowa	32,435,295	31,756,246	30,650,765
Kansas	27,554,255	27,412,178	27,085,960
Kentucky	41,904,961	41,524,828	40,874,976
Louisiana	50,396,171	50,134,992	49,283,980
Maine	13,091,083	13,076,756	13,045,438
Maryland	49,395,220	49,711,724	50,289,999
Massachusetts	65,477,908	64,960,514	63,958,731
Michigan	102,209,417	101,862,808	100,940,853
Minnesota	47,157,140	46,938,204	46,703,324
Mississippi	29,387,457	29,238,914	29,097,997
Missouri	56,559,326	56,428,320	56,118,347
Montana	9,289,720	9,122,541	8,868,273
Nebraska	18,062,095	17,799,537	17,419,432
Nevada	10,526,850	10,726,505	11,164,620
New Hampshire	11,224,142	11,439,377	11,897,264
New Jersey	85,047,052	84,876,391	84,811,749
New Mexico	16,307,620	16,474,040	17,025,773
New York	199,998,907	197,955,804	194,150,671
North Carolina	70,347,701	70,518,692	71,208,627
North Dakota	7,703,945	7,563,132	7,315,505
Northern Mariana Islands	93,103	93,103	93,103

TABLE 2.—TITLE XX SOCIAL SERVICES BLOCK GRANT ALLOCATIONS BY STATE AND TERRITORY—Continued

	Fiscal year—		
	1988 actual	1989 estimate	1990 estimate
Ohio	120,833,844	119,762,593	117,868,211
Oklahoma	37,125,141	36,813,185	35,954,233
Oregon	30,219,708	30,052,035	29,885,316
Pennsylvania	133,306,362	132,427,220	129,688,930
Puerto Rico	13,965,517	13,965,517	13,965,517
Rhode Island	10,886,742	10,860,168	10,814,701
South Carolina	37,642,487	37,604,028	37,878,790
South Dakota	7,962,617	7,886,153	7,731,035
Tennessee	53,556,475	53,498,859	53,483,015
Texas	184,107,412	185,814,693	187,994,274
Utah	18,500,714	18,545,826	18,830,045
Vermont	6,016,950	6,026,001	6,036,112
Virgin Islands	465,517	465,517	465,517
Virginia	64,173,298	64,459,275	65,358,409
Washington	49,586,413	49,711,724	49,907,275
West Virginia	21,773,485	21,375,039	20,623,383
Wisconsin	53,702,681	53,298,364	52,455,126
Wyoming	5,724,537	5,647,287	5,522,168

Source: Department of Health and Human Services.

TITLE XX PROGRAM GOALS

The purpose of the title XX social services block grant program is to provide assistance to States to enable them to furnish services directed at the five goals of the statute:

—Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency;

—Achieving or maintaining self-sufficiency, including reduction or prevention of dependency;

—Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reuniting families;

—Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and

—Securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

States are given wide discretion as to the services to be provided and the groups who may be eligible for services, usually low income families and individuals. In addition to supporting social services, the law allows States to use their allotment for staff training, administration, planning, evaluation, and purchasing technical assistance in developing, implementing, or administering the State social service program. States decide what amount of the Federal allotment to spend on services, training, and administration.

Some restrictions are placed on the use of title XX funds. Funds cannot be used for the following: most medical care except family planning; rehabilitation and certain detoxification services; purchase of land, construction, or major capital improvements; most room and board except emergency short-term services; educational services generally provided by public schools; most social services provided in and by employees of hospitals, nursing homes, and prisons; cash payments for subsistence; child day care services that do not meet State and local standards; and wages to individuals as a social service except wages of welfare recipients employed in child day care.

RECIPIENTS OF TITLE XX FUNDED SOCIAL SERVICES

In fiscal year 1979, when the ceiling on title XX services funds was $2.9 billion, over 7.2 million individuals were recipients of title XX services.

Under the old title XX law, eligibility for title XX funded social services was determined by the States within certain parameters set by Federal law.

The 1981 Budget Reconciliation Act eliminated the federally mandated priority that at least 50 percent of the Federal title XX funds received by a State must be expended for services to recipients of AFDC, SSI or medicaid.

The 1981 Budget Reconciliation Act also eliminated the following provisions in the title XX program related to targeting services to low income individuals and families:

—With certain exceptions, no person with gross family income higher than 115 percent of the State's median income for a family of four (adjusted for family size) could receive title XX funded services. The exceptions were protective services for abused or neglected children or adults, family planning services and information and referral services.

—States had to charge fees reasonably related to income for services to individuals or families with income higher than 80 percent of the State's median income or the median income of all States, whichever was lower, and they could, at their option, charge fees for services to persons below that income level.

While States no longer have to set eligibility standards or target funds within certain parameters set by Federal title XX law, many States have chosen income eligibility criteria lower than the Federal maximum income eligibility limits under the old title XX law. Therefore, it can be expected that the income eligibility criteria that States now use do not exceed that of previous years and most likely are lower because of the reductions in the title XX ceiling.

In fiscal year 1980, 27 percent of those receiving title XX services were AFDC recipients; 11 percent were SSI recipients; 4 percent were medicaid recipients who were not AFDC or SSI recipients; 21 percent of the recipients received services provided without regard to income or welfare status; and 37 percent were eligible according to income criteria.

TYPES OF SOCIAL SERVICES PROVIDED UNDER TITLE XX

To date, there has been very limited information available on the use of title XX funds by the States. Under the title XX social services block grant program each State must submit a report to the Secretary of Health and Human Services on the intended use of its funds. These pre-expenditure reports are only required to include information about the types of activities to be funded and the characteristics of the individuals to be served.

The Family Support Act of 1988, Public Law 100–485, will strengthen reporting requirements. The new legislation requires States to submit annual reports containing detailed information on the services actually funded and the individuals served through title XX funds.

Table 3 is a comparison of the primary services offered by the States taken from a summary of the pre-expenditure reports for fiscal years 1982 through 1988 prepared by the Department. Currently, the most frequently provided services are: home-based services, day care for children, protective and emergency services for children and adults, and employment, education and training services. Fiscal year 1979 is the most recent year for which data are available on the percentage of total title XX dollars spent for various types of social services.

In addition to the pre-expenditure reports, another source of data on title XX is from the Voluntary Cooperative Information System (VCIS) of the American Public Welfare Association funded by HHS. The VCIS is a national data base comprised of aggregate State program statistics. Although there are certain limitations to these data, such as unavailability of data for all States, the following presents information on services and recipients for fiscal year 1983, the second year of the SSBG implementation.

Services: Data from 32 States submitting information to the VCIS indicated that the following services accounted for over half of all services provided to recipients: information and referral services, 14.5 percent; protective services for children, 12.3 percent; home-based services, 10.6 percent; counseling, 9.5 percent; and child day care services, 7.5 percent.

Recipients: Data from 32 States show that the number served during fiscal year 1983 was over 5 million recipients.[1]

Homemaker/chore services include, for example, an individual trained by the local welfare agency to go into the home of an aged or disabled individual a few hours a week to assist with meal preparation, cleaning, and personal care to enable them to remain in their home.

Protective services for children include the activities of a child-welfare caseworker who is responsible for investigating and managing cases of child abuse or neglect. For example, a caseworker may visit a home after reports are received from a doctor or a neighbor of possible child abuse and determine whether the home situation warrants recommending removal of the children and placement in foster care.

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[1] A Statistical Summary of the VCIS Social Services Block Grant (SSBG) Data for fiscal year 1983. The Voluntary Cooperative Information System (VCIS), American Public Welfare Association. October 1985. pp. 11 and 13.

TABLE 3.—COMPARISON OF THE NUMBER OF STATES[1] OFFERING SELECTED SERVICES FOR FISCAL YEARS 1982–88

Services	1982	1983	1984	1985	1986	1987	1988
Adoption	43	36	38	37	39	34	31
Case management[2]						34	22
Counseling	48	30	28	32	38	33	20
Day care—adults	41	37	29	26	31	24	25
Day care—children	54	50	50	52	52	48	45
Disabled services	24	36	36	39	41	31	37
Employment, education, and training	40	28	31	31	43	40	38
Family planning	47	35	31	33	30	31	26
Foster care—adult	18	25	20	16	18	15	10
Foster care—children	36	34	34	33	31	30	27
Health related services	37	26	23	27	36	26	22
Home based services[3]	54	51	51	55	55	49	52
Home delivered/congregate meals	28	23	24	24	28	20	20
Housing services	22	14	12	13	18	9	11
Information and referral	52	36	34	37	34	25	26
Legal services	20	17	16	18	17	14	12
Placement services	27	18	13	19	20	19	14
Prevention and intervention services[4]		11	28	26	35	31	22
Protective and emergency—adults	48	44	45	42	46	40	31
Protective and emergency—children	52	52	47	46	54	46	38
Residential care—treatment	23	19	26	24	29	25	29
Special services for children and youth		19	24	22	28	10	16
Special services for the blind[2]						7	10
Special services for juvenile delinquents[2]						19	15
Social support services[5]		2	30	30	25	27	34
Substance abuse services	14	7	14	14	13	12	7
Transportation services	36	25	25	29	33	27	27
Services for unmarried parents	15	10	10	12	10	10	11
Other[6]		5	27	35	36	7	14

[1] Includes 50 States, the District of Columbia, and the 4 eligible Insular areas.

[2] Identified as separate service for the first time in 1987. This is not meant to imply that the service was first available in 1987.

[3] Home based services include: homemaker, chore, home health, companionship, and home maintenance.

[4] Prevention/Intervention Services include: Investigation/assessment, family centered early intervention, home evaluation and supervision, preventive and restorative.

[5] Social Support Services include: socialization, recreation, camping, physical activity, living skills, money management, day treatment, family development, social adjustment, community living services, family management, life skills education, personal and financial management.

[6] Other Services include: services to jail inmates or status offenders, social services in correctional facilities, parole supervision, diagnostic and re-entry services to ex-offenders, work release, group home care, services to Hispanics, homeless services, and services to victims of rape and domestic violence.

Source: U.S. Department of Health and Human Services—Fiscal Year Preexpenditure Reports.

In another situation, the caseworker will have to determine whether the child care training provided by a private family service agency to a teenage mother enables her to care for her two children who currently are in foster care.

In another situation, the caseworker may have to arrange for an emergency caretaker to stay with some children in their own home instead of being placed in an institution while their mother is in a hospital receiving emergency medical care.

TRANSFER OF FUNDS AMONG BLOCK GRANTS

Public Law 97-35, which created the title XX block grant, gave States the authority to transfer up to 10 percent of their annual allotment to one or any combination of the three health care block grants and/or the low-income home energy assistance block grant. (The three health care block grants are: the preventive health and health services block grant; the maternal and child health services block grant; and the alcohol, drug abuse, and mental health services block grant.) In turn, most other block grant statutes allow States to transfer funds to the title XX program.

According to the fiscal year 1988 pre-expenditure reports submitted to HHS by States, only three States planned to transfer title XX funds to other programs: two States (Alabama and Maine) planned to transfer funds to the alcohol, drug abuse, and mental health services block grant program, and one State (New Mexico) planned to transfer funds to the community services block grant program. Seventeen States planned to transfer funds from the low-income home energy assistance block grant to supplement title XX funds.

TITLE XX SOCIAL SERVICES PLANNING AND PROGRAM INFORMATION

Comprehensive Annual Services Plans (CASP)

Prior to 1981, the title XX law and regulations required States to publish and make available for public comment a Comprehensive Annual Services Plan (CASP). States were required to make known through public notices the availability of the CASP and provide opportunity for comment prior to finalizing the plans for the use of the title XX funds.

The law required that the title XX CASP plan include the (1) objectives to be achieved, (2) services to be provided, (3) categories of individuals to be served, (4) geographic areas in which services are to be provided, (5) estimated expenditures, (6) location of resources, (7) coordination with related programs, (8) organizational structure of the administering agency, and (9) planning, evaluation, and reporting activities.

The Comprehensive Annual Services Plan was also sent to the Department of Health and Human Services. Such State plans were the basis of a summary and an analysis of States' planned use of title XX funds which was published by the Department each year until 1980.

While the Comprehensive Annual Services Plan did not allow for an aggregation of the various types and State-defined categories of social services, it did provide in one document a compilation of the

States' title XX plans. It allowed for an analysis of States uses of Federal title XX funds for such target groups as the aged, the disabled, and children, and for an analysis of the various types of services which the States had provided for in their title XX funded programs.

In addition to forwarding to HHS their title XX Comprehensive Annual Services Plan, States were also required to provide information to HHS under a system which aggregated State data into commonly defined categories of social services activities. This system was the Social Services Reporting Requirements (SSRR) and produced reports which aggregated the data from the States and included over 1,000 different State-defined social service categories into 41 Federal categories.

Title XX Pre-expenditure Reports

Since 1981, States have only been required to submit to the Department of Health and Human Services an annual "pre-expenditure report". This financial reporting document (compared to a program plan) provides very minimal information on the uses which States intend to make of their title XX allocations.

In an attempt to determine trends and current expenditures by the States for certain social services categories, HHS was asked to utilize the pre-expenditure reports and summarize expenditures for day care services for children; protective services for children; and home care services. For those three categories, and for only those States that included such services in their reports for fiscal years 1980, 1983, 1986, 1987, and 1988, the estimates for their title XX program expenditures for each of those service categories have been listed in table 4.

As can be seen from the data in table 4, there are major changes in a State's reported expenditures for a certain service which, without further clarification, limits the value of the use of only pre-expenditure reports for understanding trends or current expenditures for certain social service categories.

Some States provide as part of the annual pre-expenditure reports a summary of the States intended use of title XX funds similar to the summaries included in the pre-1981 Comprehensive Annual Services Plans. Two examples of these State summaries are included in tables 5 and 6 for the States of Alabama and Pennsylvania. The summaries from both States include estimates of the number of people to be served—Alabama uses monthly numbers and Pennsylvania uses annual numbers. The Alabama summary also includes information on the funds to be transferred from the Low Income Home Energy Assistance block grant and transfer from title XX to the Alcohol, Drug Abuse and Mental Health Services block grant.

TABLE 4.—DATA FROM PRE-EXPENDITURE REPORTS ON TITLE XX EXPENDITURES FOR SELECTED STATES FOR THREE SELECTED SERVICES: FISCAL YEARS 1980, 1983, 1986, 1987, AND 1988

[In thousands of dollars]

	1980	1983	1986	1987	1988
	Home Based Services				
Alabama	5,198	5,478	4,480	2,750	2,631
Arkansas	2,018	2,184	1,479	2,071	412
Delaware	509	570	461	420	519
Georgia	5,227	4,329	3,018	1,858	1,741
Illinois	28,690	60,090	26,010	5,622	6,343
Indiana	6,630	6,213	7,308	4,130	4,473
Iowa	13,004	853	352	465	NA
Kentucky	3,707	2,049	2,219	5,872	2,055
Mississippi	2,127	2,492	3,182	2,315	1,000
New Mexico	3,558	2,811	1,888	1,901	1,693
South Carolina	4,990	3,625	5,373	3,663	2,294
West Virginia	9,224	4,294	5,268	5,736	2,742
Wyoming	1,118	911	1,292	1,451	NA
	Protective Services for Children				
Alabama	9,843	12,627	13,702	19,114	26,857
Arkansas	1,561	1,859	2,283	2,256	2,256
Georgia	8,351	4,445	3,253	6,457	6,344
Indiana	6,657	9,662	10,545	8,967	NA
Iowa	6,138	7,042	3,806	3,743	3,858
Kentucky	4,445	4,697	9,063	11,764	12,894
Mississippi	1,290	1,784	2,653	3,677	935
New Mexico	1,700	1,951	1,938	3,173	4,105
Pennsylvania	15,297	2,256	2,526	6,178	NA
South Carolina	5,329	5,806	7,086	5,315	5,742
Virginia	6,654	10,962	12,312	14,220	14,661
West Virginia	3,253	2,703	3,627	3,556	3,469
Wyoming	68	59	134	1,570	NA
	Day Care for Children				
Alabama	18,062	10,301	7,699	9,661	10,823
Arkansas	1,851	1,392	3,238	3,174	73,174
Delaware	4,240	1,862	2,004	2,483	2,683
Georgia	21,339	14,752	14,117	14,117	12,61
Illinois	40,911	46,928	40,870	29,426	56,364
Indiana	9,500	8,435	7,407	7,088	8,012
Iowa	4,537	2,149	2,969	3,273	3,016
Kentucky	4,295	3,530	4,171	5,393	4,878
New Mexico	3,388	2,220	2,241	2,313	5,185
Pennsylvania	74,811	41,806	42,419	40,289	39,904
South Carolina	12,520	10,923	12,072	9,047	9,179
Virginia	11,527	6,933	2,937	3,258	2,961

TABLE 4.—DATA FROM PRE-EXPENDITURE REPORTS ON TITLE XX EXPENDITURES FOR SELECTED STATES FOR THREE SELECTED SERVICES: FISCAL YEARS 1980, 1983, 1986, 1987, AND 1988—Continued

[In thousands of dollars]

	1980	1983	1986	1987	1988
West Virginia	6,856	4,042	3,700	3,628	3,559
Wyoming	1,337	1,024	2,328	3,214	NA

NA—Not available.

Source: Department of Health and Human Services.

REPORTING REQUIREMENTS OF THE FAMILY SUPPORT ACT OF 1988

The Family Support Act of 1988, Pubilc Law 100-485, enacted at the end of the 100th Congress, amended the title XX legislation to strengthen its reporting provisions. The new legislation requires States to submit annual reports containing the following information:

—The number of individuals served with title XX funds, with separate breakdowns for numbers of children and adults, also broken down by type of service received;

—Amounts spent for each type of service, broken down by child and adult recipients;

—Eligibility criteria used for receiving services; and

—Service delivery methods, broken down by public versus private agencies, and by type of service provided.

The welfare legislation also requires the Secretary of HHS to establish uniform definitions of services.

TABLE 5.—ALABAMA: ESTIMATED NUMBER OF CLIENTS AND EXPENDITURES UNDER TITLE XX BLOCK GRANT FOR SOCIAL SERVICES, FISCAL YEAR 1988

[Dollars in thousands]

Service	Estimated number served monthly	Title XX estimated expenditures	Total estimated expenditures
Adoption services	854	$524	$1,135
Day care/day health for adults	725	1,205	1,205
Day care for children	6,500	2,155	10,823
Foster care for adults	320	154	154
Foster care for children	6,684	10,069	10,569
Homemaker services for adults	3,100	2,435	2,435
Homemaker services for children	480	98	196
Protective services for adults	2,900	2,368	7,447
Protective services for children	6,400	20,003	26,857
Residential care for delinquents	60	525	700
Residential care for individuals with exceptional needs	359	4,186	4,250
Total mental health transfer [1]		2,500	
Total		[2] 46,223	[3] 65,782

[1] Transfer of $2.5 million to Alcohol and Drug Abuse and Mental Health Services Block Grant.

[2] Includes $1 million transfer from Low Income Energy Assistance Block Grant.

[3] Includes Federal, State, and local funds.

TABLE 6.—PENNSYLVANIA: ESTIMATED TITLE XX FUNDS AND PERSONS SERVED BY PROGRAM AREA AND SERVICE, FISCAL YEAR 1988

[Dollars in thousands]

Service	Estimated Federal funds	Estimated persons to be served (annually)
Adult day care	$2,473	1,525
Attendant care	4,463	1,281
Child welfare social service	11,181	3,412
Community residential mental retardation service	5,664	364
Community residential rehabilitation	2,757	998
CAO—support service	11,053	237,700
County social services	14,339	170,280
Employment	8,259	5,330
Family-based mental health	1,075	707
Family planning	5,020	83,200
Family support service	3,126	2,600
Information and referral	2,715	251,200
Legal	6,688	39,813
Protective—domestic violence	1,573	9,499
Protective—emergency shelter	2,849	35,813
Protective—rape crisis	826	4,673
Residential social services for adjudicated delinquents	950	450
Service planning/case management	6,545	55,877
Subsidized child day care	39,904	13,301
Transportation	78	2,187
Administration	5,384	....
Total	136,922	919,572

Section 11. Child Welfare, Foster Care, Adoption Assistance [1]

BACKGROUND

Child welfare services focus on improving the conditions of children and their families and on improving or providing substitutes for functions the parents have difficulty in performing. Many private, nonprofit and government entities work to provide a range of child welfare services to families in need. The primary responsibility for child welfare services in the government, however, rests with the States. Each State has its own legal and administrative structures and programs that address the needs of children and there are many differences between the States. The Federal Government has also been involved in efforts to improve the welfare of children in specific areas of national concern since the early 1900's and numerous Federal programs provide support for such services today, including several programs under titles IV–B and IV–E of the Social Security Act. In addition, services relating to child welfare may be provided at State discretion under the Social Services Block Grant program (title XX of the Social Security Act).[2]

Child welfare services encompass a broad range of activities, including child protection, care of the homeless and neglected, child social and nutritional development, and children in out-of-home care. The services provided may be supportive (e.g., help the family cope with problems or provide protection for children while the family learns to perform appropriate parenting roles); supplementary (e.g., provide financial assistance); or substitutive (e.g., foster care).[3]

It is generally agreed that it is in the best interests of children to live with their families. To this end, experts emphasize the value of preventive and rehabilitative services intended to help families stay together whenever possible, and emphasize the need to limit the duration of foster care placements by returning children to their homes whenever appropriate and finding permanent living arrangements for children who cannot be returned home.

This philosophy is reflected in the Federal programs authorized under titles IV–B and IV–E which support services to promote the welfare of children. Title IV–B authorizes several general child welfare programs and title IV–E authorizes the Aid to Families with Dependent Children (AFDC) Foster Care, Independent Living, and adoption assistance programs. The Child Welfare and Foster

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[1] Based on a paper by Sharon Stephan, Education and Public Welfare Division, Congressional Research Service.

[2] At the Federal level, programs that fund child welfare services (in addition to those under titles IV–B, IV–E and XX) include Head Start, and several programs that provide funding directed at specific problems, such as child abuse, homelessness, runaways, and teenage pregnancy.

[3] This typology is adapted from Kadushin, Alfred, and Judith A. Martin. Child Welfare Services. Macmillan Publishing Co., New York, 1988. pp. 26–28.

Care programs are intended to operate in consort to help prevent the need for out-of-home placement of children and, in cases where such placement is necessary, to provide protections and permanent placement for the children involved. In addition, funding is provided under the Foster Care program to assist States with the maintenance costs of low-income (AFDC-eligible) children in foster care. The Independent Living program is intended to help States facilitate the transition of children from foster care to independent living; and the Adoption Assistance program is primarily to help States support the adoption of AFDC- or SSI-eligible children with "special needs" such as ethnic background, age, membership in a sibling group, or a mental or physical handicap.

THE EVOLUTION OF FEDERAL CHILD WELFARE PROGRAMS

The current structure of the child welfare-related programs under titles IV–B, IV–E and XX has evolved in response to concerns regarding what services would most effectively address a broad range of child welfare needs. The programs acknowledge both the distinctions and inter-relationships between preventive (e.g., supplementary or supportive) services and substitute care services.

Federal funding to help States support child welfare services to protect and care for homeless, dependent and neglected children, and children in danger of becoming deliquent, was first specifically authorized under title V of the original Social Security Act in 1935. Social Security amendments between 1935 and 1962 broadened the definition of child welfare services to include social services that supplement or substitute for parental care, including care for children away from their homes in foster family homes or child care facilities, and provided for the use of funds for services to all children in need. Amendments in 1958 required States to provide a matching amount for the Federal funds under the program. The Child Welfare Services program was transferred to title IV–B of the Social Security Act in 1967. The authorization level for child welfare services increased from $55 million in fiscal year 1968 to $266 million in fiscal year 1977. However, appropriations for the program grew very little, increasing from $46 million in the late 1960s to $66 million in fiscal year 1980. Because there have been few reporting requirements for this program, there are no reliable historical data on the exact number of children served, their characteristics, or on the services provided.

Until 1961, the Child Welfare Services program was the only source of Federal funding for foster care. Funding specifically for foster care maintenance payments was first made available in 1961 under temporary provisions authorizing Federal matching funds for children eligible for Aid to Dependent Children (ADC) (under title IV–A of the Social Security Act) who were removed from their homes and placed in foster care on the basis of a judicial determination that living in the home was contrary to the child's welfare. During the 1960s, this open-ended entitlement program was made permanent and the eligibility criteria for recipients was broadened. Historical data on the title IV–A Foster Care program are incomplete. However, available data suggest that the number of children served and the program expenditures grew rapidly after 1969, when the program became mandatory for the States. In 1969, 30 States reported providing benefits for approximately 16,800 children; by the mid-1970s, all States were reporting and the number of children on behalf of whom benefits were paid had topped 100,000.

Protective services for children was one of the goals of the $2.5 billion title XX social services legislation which was enacted in 1974. Although States have the discretion to target title XX funds at a range of services for all age groups and target populations, title XX funds are a large source of Federal funds for child welfare services. Section 10 provides greater detail on the title XX program.

During the 1970s, concern was expressed about the growth in the number of children supported under the title IV-A Foster Care program as well as the length of time children were spending in foster care. Appropriations for the Child Welfare Services program—which supported services intended to help alleviate the need for foster care—were well below the authorization level throughout the 1970s. Some argued that the IV-A Foster Care program, an open-ended entitlement, provided fiscal incentives to States to place children in foster care rather than provide them with preventive services, such as those authorized under the Child Welfare Services program, for which the Federal Government provided more limited funding. The cost effectiveness of using preventive services in lieu of long-term foster care was also noted.

There was also concern that children with special needs (such as those with physical or other handicaps or members of minority or sibling groups) were difficult to place in adoptive settings, in part because many families were unable to afford the expenses necessitated by the childrens' special needs.

Many of these concerns were discussed during hearings in the mid- to late-1970s. In 1980, the Adoption Assistance and Child Welfare Amendments of 1980 were enacted (P.L. 96-272), modifying both the Child Welfare Services and Foster Care programs, transferring the Foster Care program from title IV-A to title IV-E, and establishing a new Adoption Assistance program under title IV-E. This legislation included incentives to States to help reduce long-term foster care.

The Foster Care and Adoption Assistance programs were amended in the 99th Congress, under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA, P.L. 99-272). This legislation also established a new entitlement program under title IV-E to help States facilitate the transition of children age 16 and over from AFDC foster care to independent living. The program is called the Independent Living program.

During the 99th Congress, legislation was also enacted as part of the Tax Reform Act of 1986 (P.L. 99-514) that amended the Adoption Assistance program under title IV-E to provide for Federal matching funds for the one-time adoption expenses of children with special needs, whether or not the children are eligible for AFDC or SSI payments.

During the 100th Congress, legislation was enacted to expand the Independent Living program to include children ages 16 or over who are in any foster care situation and to provide services for specified children for 6 months after foster care payments or foster care ends (P.L. 100-647).

FEDERAL CHILD WELFARE PROGRAMS TODAY

Summary of Federal funding of child welfare, foster care and adoption activities under the Social Security Act

The Social Security Act contains four primary sources of funds available to States for child welfare, foster care, and adoption activities. These funds include both nonentitlement authorizations (under which specific appropriations are made for a program, effective for 1 year, a fixed number of years, or permanently) and authorized entitlements (under which the Federal government has a binding obligation to make payments to any person or unit of government that meets the eligibility criteria established by law). The four programs include the Title IV-B Child Welfare Services program, the Title IV-E Foster Care program, the Title IV-E Adoption Assistance program, and the Title XX Social Services Block Grant program. The following table lists the four programs, as well as the recently established Independent Living program, and their funding environments.

Table 2 provides data on the level of Federal funds which have been used by or allocated to States under titles IV-B, IV-E and XX for fiscal years 1981 through 1987, and projections for fiscal years 1988 through 1990. Under the title XX Social Services Block Grant program, States have discretion over what portion of their allocation they will spend on child welfare, foster care and adoption activities, as well as a range of other activities not directly focused on children. As this table shows, detailed data on child welfare services spending by States under the title XX program are not available.

In addition to the funds allocated to the States or available on an entitlement basis, approximately $15 million was appropriated for fiscal year 1988 for research and demonstration activities authorized under Section 426 of title IV-B for direct Federal grants to public and private entities for child welfare staff training and child welfare research and demonstration projects, of which $2.4 million was reprogrammed for general social services research.

TABLE 1.—FUNDING ENVIRONMENT OF THE FEDERAL PROGRAMS WHICH SUPPORT FOSTER CARE, CHILD WELFARE, AND ADOPTION SERVICES

Program	Budgetary classification	Federal support of total
Title IV–E Foster Care Program:		
Foster care assistance payments.	Authorized entitlement	Open-ended Federal match at Medicaid rate.
Administrative costs	Authorized entitlement	Open-ended Federal match of 50 percent.
Training expenses (State personnel).	Authorized entitlement	Open-ended Federal match of 75 percent.
Title IV–E Adoption Assistance Program:		
Adoption assistance payments	Authorized entitlement	Open-ended Federal match at Medicaid rate.
Nonrecurring adoption expenses.	Authorized entitlement	Open-ended Federal match of 50 percent [1]
Administrative costs	Authorized entitlement	Open-ended Federal match of 50 percent.
Training expenses (State personnel).	Authorized entitlement	Open-ended Federal match of 75 percent.
Title IV–E Independent Living Program.	Authorized entitlement	100% Federal funding; State total capped at State share of $45 million.
Title IV–B Child Welfare Services Program.	Nonentitlement authorization.	Federal match of 75 percent, total capped at State allotment.
Title XX Social Services Block Grant Program.	Authorized entitlement	100 percent Federal match, with a funding ceiling.

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[1] The Federal Government reimburses 50 percent of total expenditures for any one placement, up to a maximum of $2,000 per placement.

Funds available to States from the title IV–B Child Welfare program and title XX Social Services program may be used for services to families and children without regard to their eligibility for AFDC. Federal matching funds for foster care maintenance payments under title IV–E are only provided in those cases where the child would have been eligible for AFDC if still in the home. All children determined to have "special needs" related to their being adopted, as defined under title IV–E, are eligible for reimbursement of certain nonrecurring costs of adoption under the title IV–E Adoption Assistance program. However, only AFDC- or SSI-eligible "special needs" children are eligible for Federally matched adoption assistance payments available under title IV–E. Funds available to States for the title IV–E Independent Living program may be used for services which facilitate the transition of children from foster care to independent living, regardless of whether or not they receive AFDC foster care assistance. Table 3 provides data on participation under the title IV–B, IV–E and XX programs. As this table demonstrates, only limited data are available on participation in these programs.

TABLE 2.—FEDERAL FUNDING FOR CHILD WELFARE, FOSTER CARE, AND ADOPTION ACTIVITIES UNDER TITLES IV–B, IV–E, AND XX OF THE SOCIAL SECURITY ACT, 1981–90, UNDER CURRENT LAW

[In millions of dollars]

Fiscal year	Title IV–B child welfare services	Title IV–E foster care State claims			State use of FC funds for IV–B, CWS (transfers)	Title IV–E independent living program	Title IV–E adoption assistance State claims				Title XX SSBG program (CWS portion)
		Total [1]	Maintenance payments	Admin./training			Total [2]	Assistance payments	Nonrecurring payments	Admin./training	
1981	163.6	308.8	278.4	30.4	74.1	....	0.5	0.4	....	0.1	NA
1982	156.3	373.8	301.3	72.5	20.6	....	4.7	4.5	....	.2	NA
1983	156.3	393.5	275.5	117.9	32.6	....	12.6	11.3	....	1.3	NA
1984	165.0	445.2	297.8	147.4	32.2	....	25.7	20.2	....	5.5	NA
1985	200.0	546.2	355.3	190.9	19.6	....	41.8	31.6	....	10.2	NA
1986	[3] 198.1	[3] 647.1	404.6	242.5	14.9	....	54.8	40.5	....	14.3	NA
1987	222.5	716.3	422.0	294.3	11.3	[4] 45	78.5	52.4	[5] 7.4	18.7	NA
1988 (estimate)	239.4	891.0	520.7	370.3	5.1	45	94.7	62.2	10.5	22.0	NA
1989 (estimate)	246.7	1,022.6	572.2	450.4	7.0	45	111.7	73.1	13.4	25.2	NA
1990 (estimate)	246.7	1,154.2	617.7	536.5	7.0	([6])	125.3	84.4	12.4	28.4	NA

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[1] Total includes administration and training expenditures, as well as maintenance payments, but does not include transfers to the title IV–B child welfare services program.

[2] Total includes administration and training expenditures, maintenance payments, and nonrecurring payments.

[3] Funding level for fiscal year 1986 reflects a 4.3 percent reduction in the $207 million IV–B child welfare funds appropriated, due to the sequestration under the Gramm-Rudman-Hollings legislation. Funding level for title IV–E foster care includes a $6 million reduction from funds because of the denial of Federal matching required under the fiscal year 1986 sequestration order.

[4] States did not begin receiving funds until July 1987; States are allowed to spend the fiscal year 1987 carryover funds in fiscal year 1989.

[5] Estimated.

[6] Program authority is only through fiscal year 1989.

NA—Not available.

Source: Department of Health and Human Services.

TABLE 3.—PARTICIPATION IN CHILD WELFARE, FOSTER CARE, AND ADOPTION ACTIVITIES UNDER TITLES IV-B, IV-E, AND XX OF THE SOCIAL SECURITY ACT, 1981-90, UNDER CURRENT LAW

Fiscal year	Title IV-B child welfare services	Title IV-E foster care assistance payments [1]	State use of FC funds for IV-B, CWS (transfers)	Title IV-E independent living program [2]	Title IV-E adoption assistance		Title XX SSBG program (CWS portion)
					Assistance payments [1]	Nonrecurring payments	
1981	NA	104,851	NA	....	165	....	NA
1982	NA	97,309	NA	....	2,402	....	NA
1983	NA	93,360	NA	....	5,309	....	NA
1984	NA	102,051	NA	....	11,581	....	NA
1985	NA	109,122	NA	....	16,009	....	NA
1986	NA	110,586	NA	....	22,214	....	NA
1987	NA	111,879	NA	20,182	27,635	....	NA
1988 (estimate)	NA	[3] 122,949	NA	18,931	32,978	NA	NA
1989 (estimate)	NA	124,178	NA	NA	38,419	NA	NA

[1] Participation defined as the average monthly number of recipients.

[2] Data on participation in the title IV-E independent living program are based on State plans, and show number participating in a program activity at some time during the fiscal year.

[3] Increase due to improved State bookkeeping in one State.

NA—Not available.

Source: Department of Health and Human Services.

THE TITLE IV-B CHILD WELFARE SERVICES PROGRAM

The Child Welfare Services program under title IV-B permanently authorizes 75 percent Federal matching grants to States for services that protect the welfare of children. These services are to address problems that may result in neglect, abuse, exploitation or delinquency of children; prevent the unnecessary separation of children from their families and restore children to their families, when possible; place children in adoptive homes if restoration is not possible; and assure adequate foster care when children cannot return home or be placed for adoption. There are no Federal income eligibility requirements for the receipt of the child welfare services.

Since 1980, States have been limited in their use of child welfare services funds. Based on new requirements in Public Law 96-272, title IV-B funds allocated to a State above the 1979 appropriation level of $56.5 million can only be used for child welfare services (as opposed to, for example, foster care placement). In addition, States are required to implement certain foster care protections for all children in foster care in order to be eligible for child welfare services funding over specified levels. States must also implement these foster care protections in order to transfer funds from their title IV-E Foster Care program to the Child Welfare Services program. (The foster care protections and transfer mechanisms are described in the section "Foster Care Protections and Transfer of Foster Care Funds for Child Welfare.")

The authorization level for the Child Welfare Services program has been $266 million annually since fiscal year 1977. Appropriations for the program increased from $163.6 million in fiscal year 1981 to $246.7 million in fiscal year 1989 (see table 2). In real inflation-adjusted terms, appropriations increased 24 percent between fiscal year 1982 and fiscal year 1988.

Child welfare services funds are distributed to States on the basis of their under-21 population and per capita income. Because of minimal reporting requirements under the program, there are no reliable national or State-by-State data on the exact number of children served, their characteristics, or the services provided. Table 4 details the State-by-State distribution of child welfare services funds in fiscal year 1988.

TABLE 4.—TITLE IV–B CHILD WELFARE SERVICES: STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES' COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS

[In thousands of dollars]

	Fiscal year—		States compliance with sec. 427 child welfare protections as of Sept. 30, 1988
	1988 actual	1989 appropriation	
Totals	239,350	246,679	
Alabama	5,000	5,136	Approved
Alaska	450	450	Approved
Arizona	3,675	3,719	Approved
Arkansas	3,010	3,032	Approved
California	21,969	22,619	Approved
Colorado	2,988	3,028	Approved
Connecticut	2,086	2,099	Disapproved
Delaware	632	654	Approved
District of Columbia	368	424	Approved
Florida	9,859	10,146	Approved
Georgia	7,037	7,149	Approved
Hawaii	1,090	1,119	Certified
Idaho	1,370	1,388	Disapproved
Illinois	10,357	10,549	Disapproved
Indiana	5,932	6,064	Approved
Iowa	3,062	3,011	Approved
Kansas	2,386	2,461	Approved
Kentucky	4,492	4,556	Approved
Louisiana	5,776	5,657	Approved
Maine	1,358	1,364	Approved
Maryland	3,681	3,720	Disapproved
Massachusetts	4,336	4,327	Certified
Michigan	9,354	9,353	Approved
Minnesota	4,106	4,119	Approved
Mississippi	3,865	3,923	Approved
Missouri	5,116	5,126	Approved
Montana	1,049	1,028	Approved
Nebraska	1,718	1,709	Approved

TABLE 4.—TITLE IV–B CHILD WELFARE SERVICES: STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES' COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS—Continued

[In thousands of dollars]

	Fiscal year—		States compliance with sec. 427 child welfare protections as of Sept. 30, 1988
	1988 actual	1989 appropriation	
Nevada	899	945	Approved
New Hampshire	883	1,004	Disapproved
New Jersey	5,349	5,353	Approved
New Mexico	2,013	2,030	Approved
New York	13,687	14,073	Approved
North Carolina	6,975	7,189	Approved
North Dakota	843	833	Approved
Ohio	11,047	11,027	Approved
Oklahoma	3,672	3,658	Approved
Oregon	2,776	2,792	Approved
Pennsylvania	10,987	11,003	Approved
Rhode Island	864	934	Approved
South Carolina	4,348	4,376	Approved
South Dakota	927	920	Approved
Tennessee	5,445	5,598	Approved
Texas	18,319	18,562	Approved
Utah	2,773	2,832	Approved
Vermont	607	666	Disapproved
Virginia	5,143	5,350	Approved
Washington	4,127	4,292	Approved
West Virginia	1,770	2,348	Disapproved
Wisconsin	4,975	4,972	Approved
Wyoming	396	623	Not certified
American Samoa		163	Not applicable
Guam	328	342	Approved
Northern Mariana	114	117	Approved
Puerto Rico	3,665	6,453	Not certified
Virgin Islands	296	295	Not certified

Source: Department of Health and Human Services, Office of HDS, ACYF.

THE TITLE IV–E AFDC FOSTER CARE PROGRAM

The AFDC Foster Care program under title IV–E is a permanently authorized entitlement program that provides open-ended matching funds to States for the maintenance payments made for AFDC-eligible children in foster care family homes or child care institutions housing up to 25 people. The program is required of States participating in the AFDC program (all States participate).

The Federal matching rate of total expenditures for a given State is that State's Medicaid matching rate, which averages about 53 percent nationally. States may also claim open-ended Federal matching (50 percent) for their administrative costs for this program and (75 percent) for State training expenditures (for training of personnel employed or preparing for employment by the State or local agency administering the program).

States are *required* to provide foster care maintenance payments to AFDC-eligible children removed from the home of a relative if the child received or would have been eligible for AFDC prior to removal from the home and if the following apply: (1) the removal and foster care placement were based on a voluntary placement agreement[4] or a judicial determination that remaining in the home would be contrary to the child's welfare and reasonable efforts were made to eliminate the need for removal or to return the child to his home; and (2) care and placement of the child are the responsibility of specified public agencies.

The maintenance payments under the title IV-E Foster Care program are for the costs of food, shelter, clothing, daily supervision, school supplies, general incidentals, liability insurance for the child, and reasonable travel to the child's home for visits. Children in the AFDC Foster Care program are eligible for Medicaid and the State in which the child resides is responsible for providing the Medicaid coverage.

Federal matching for maintenance payments for voluntarily placed foster care children is at State option; States may receive Federal matching funds for voluntarily-placed foster care children only if they have implemented the child welfare and foster care services and procedures required under section 427 of the Social Security Act. Federal matching for voluntarily-placed children does not continue after 180 days unless there has been a judicial determination that the continued placement is in the best interest of the child. Also, parents have the right to revoke the voluntary placement agreement unless the State agency obtains a judicial determination that the return of the child to the home would be contrary to the child's best interests. In fiscal year 1987, 22 States claimed Federal matching funds for children in foster care under voluntary placement agreements that involved 1,076 children.

The average estimated monthly number of children in AFDC foster care has increased 26 percent between 1982 and 1988, from 97,000 monthly average children participating in fiscal year 1982 to an estimated 123,000 in fiscal year 1988 (see table 3); however, about 11,000 of this increase was due to improved bookkeeping in one State. At the same time, Federal expenditures for the Foster Care program are expected to have increased more than 92 percent in real inflation-adjusted terms over the same period. Table 5 provides a State-by-State breakdown of estimated fiscal year 1988 foster care expenditures and participation. Note that when participation is measured as in the table, California and New York account for over 36 percent of the estimated fiscal year 1988 participation.

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[4] "Voluntary placement" is defined as "out-of-home placement of minor, by or with participation of a State agency, after the parents or guardian of the minor have requested the assistance of the agnecy and signed a voluntary placement agreement." "Voluntary placement agreement" is defined as "a written agreement, binding on the parties of the agreement, between the State agency, any other agency acting on its behalf, and the parents or guardians of a minor child which specifies, at a minimum, the legal status of the child and rights and obligations of the parents or guardians, the child, and the agency while the child is in placement" (sec. 472(ff)).

TABLE 5.—TITLE IV–E FOSTER CARE EXPENDITURES, TITLE IV–B TRANSFERS, AND NUMBER OF CHILDREN—FISCAL YEAR 1988

State	Foster care expenditures (thousands)	IV–B transfers (thousands)	Fiscal year 1988 average monthly number of children
Alabama	2,583	558	1,309
Alaska	548	...	138
Arizona	3,890	...	530
Arkansas	1,275	...	387
California	187,853	...	25,882
Colorado	9,113	...	1,668
Connecticut	5,326	...	1,139
Delaware	504	...	221
District of Columbia	5,592	...	261
Florida	6,583	...	2,243
Georgia	12,183	...	2,210
Hawaii	93	115	45
Idaho	322	147	160
Illinois	34,358	...	7,487
Indiana	1,576	663	1,366
Iowa	4,767	...	1,260
Kansas	4,955	262	1,117
Kentucky	8,598	...	1,471
Louisiana	16,599	...	2,515
Maine	5,193	...	742
Maryland	18,575	...	1,404
Massachusetts	5,977	...	983
Michigan	70,836	...	7,555
Minnesota	12,392	...	2,533
Mississippi	1,053	429	623
Missouri	17,471	...	2,075
Montana	1,767	...	313
Nebraska	4,073	...	879
Nevada	743	...	379
New Hampshire	1,307	...	457
New Jersey	17,832	...	3,419
New Mexico	4,135	...	720
New York	245,521	1,541	19,499
North Carolina	2,912	219	1,361
North Dakota	1,552	...	275
Ohio	27,685	...	4,447
Oklahoma	4,702	...	792
Oregon	10,509	...	1,651
Pennsylvania	53,805	...	7,800

TABLE 5.—TITLE IV–E FOSTER CARE EXPENDITURES, TITLE IV–B TRANSFERS, AND NUMBER OF CHILDREN—FISCAL YEAR 1988—Continued

State	Foster care expenditures (thousands)	IV–B transfers (thousands)	Fiscal year 1988 average monthly number of children
Rhode Island	3,679		475
South Carolina	4,149		1,175
South Dakota	637		224
Tennessee	2,280	608	1,083
Texas	20,761		2,850
Utah	1,190		304
Vermont	4,489		693
Virginia	4,598	574	1,846
Washington	6,063		1,339
West Virginia	8,427		718
Wisconsin	19,842		2,834
Wyoming	189		99
Total	891,065	5,117	122,949

Source: Department of Health and Human Services, Office of HDS, ACYF.

The administration contends that much of the increased expenditures for the Foster Care program are for State administrative claims. DHHS data show that State claims for administrative costs for the title IV–E Foster Care program increased more than 312 percent between 1982 and 1988, in real inflation-adjusted terms. Current HHS regulations give the following examples of allowable administrative costs for the Foster Care program: referral to services, preparation for and participation in judicial determinations, placement of the child, development of the case plan, case reviews, case management and supervision, recruitment and licensing of foster homes and institutions, rate setting, and a proportionate share of agency overhead. As discussed in the following section, many of these activities are required of States (i.e., they are foster care "protections") to be eligible for additional child welfare services funds. Table 6 provides a State breakdown of foster care expenditures in fiscal year 1987 between maintenance payments and administration and training expenditures.

TABLE 6.—FEDERAL FOSTER CARE EXPENDITURES UNDER TITLE IV–E, FISCAL YEAR 1987

[Dollars in millions]

State	Maintenance payments	Administration and training	Total	Administration and training as percent of total
Alabama	$1.90	$0.17	$2.08	8.38
Alaska	.43	.02	.44	3.63
Arizona	1.34	1.78	3.13	57.02
Arkansas	.54	.48	1.03	46.93
California	84.14	66.87	151.00	44.28
Colorado	2.99	4.34	7.33	59.22
Connecticut	2.86	1.42	4.28	33.12
Delaware	.41	0	.41	0
District of Columbia	2.09	2.41	4.50	53.51
Florida	4.01	1.29	5.29	24.29
Georgia	5.12	4.67	9.79	47.73
Hawaii	.06	.01	.08	18.67
Idaho	.22	.04	.26	14.73
Illinois	15.18	12.44	27.62	45.05
Indiana	.99	.28	1.27	22.02
Iowa	2.20	1.63	3.83	42.56
Kansas	3.10	.88	3.98	22.14
Kentucky	5.75	1.16	6.91	16.78
Louisiana	7.37	5.98	13.34	44.80
Maine	2.45	1.72	4.17	41.23
Maryland	4.21	10.72	14.93	71.78
Massachusetts	3.12	1.69	4.80	35.16
Michigan	38.34	18.60	56.94	32.67
Minnesota	4.41	5.55	9.96	55.71
Mississippi	.81	.04	.85	4.96
Missouri	5.68	8.37	14.05	59.59
Montana	1.07	.35	1.42	24.37
Nebraska	2.20	1.08	3.27	32.93
Nevada	.57	.03	.60	5.18
New Hampshire	.38	.67	1.05	63.90
New Jersey	6.58	7.76	14.33	54.10
New Mexico	1.88	1.45	3.32	43.47
New York	118.31	79.05	197.36	40.05
North Carolina	2.14	.20	2.34	8.42
North Dakota	.96	.29	1.25	23.02
Ohio	12.30	9.96	22.26	44.75
Oklahoma	2.05	1.73	3.78	45.87
Oregon	4.84	3.61	8.45	42.74
Pennsylvania	36.11	7.15	43.25	16.52

TABLE 6.—FEDERAL FOSTER CARE EXPENDITURES UNDER TITLE IV–E, FISCAL YEAR 1987—Continued

[Dollars in millions]

State	Maintenance payments	Administration and training	Total	Administration and training as percent of total
Rhode Island	1.73	1.23	2.96	41.60
South Carolina	1.73	1.61	3.34	48.26
South Dakota	.48	.04	.51	6.84
Tennessee	1.78	.05	1.83	2.89
Texas	7.65	[1] 9.04	16.69	54.18
Utah	.41	.55	.96	57.16
Vermont	1.84	1.77	3.61	49.14
Virginia	3.19	.51	3.70	13.69
Washington	2.20	2.67	4.87	54.82
West Virginia	3.44	3.34	6.77	49.28
Wisconsin	8.37	7.58	15.95	47.54
Wyoming	.15	0	.15	0
Total	422.02	294.25	716.28	41.08

[1] Some Texas expenditures considered not allowable ($10.736 M) and therefore excluded.

Source: Department of Health and Human Services, Office of HDS, ACYF.

TITLE IV–B FOSTER CARE PROTECTIONS AND TRANSFER OF TITLE IV–E FOSTER CARE FUNDS TO TITLE IV–B

The funding mechanisms under both the Child Welfare Services and the AFDC Foster Care programs are intended in part to encourage States to emphasize preventive services for children in lieu of foster care placement. To accomplish this, both programs provide that States may obtain additional funds for child welfare services if certain foster care protections are provided. In addition, under the Foster Care program, States must limit their foster care expenditures to obtain the additional funds for child welfare services. The following briefly describes these funding mechanisms.

Foster care protections under title IV–B

Under the title IV-B Child Welfare Services program, if total Federal appropriations exceed $141 million in any year, a State may receive its portion of the funds in excess of $141 million only if it has done the following:

(1) Conducted an inventory of all children in foster care who are under the responsibility of the State for 6 months prior to the inventory and determined: the appropriateness of and necessity for, foster placement; whether the child can or should be returned to his parents or be freed for adoption; and the services necessary to facilitate either the return of the child or the placement for adoption or legal guardianship; and

(2) Implemented and is operating to the satisfaction of the Secretary a statewide information system on every child in foster care or who has been in such care within the preceding 12 months, including goals for placement; a case review system for every foster care child under the supervision of the State; and a service program designed to help children return to their families when appropriate or be placed for adoption or legal guardianship (sec. 427(a)).

Appropriations for child welfare services have exceeded $141 million every year since fiscal year 1981 and all but three States or outlying areas (Wyoming, Puerto Rico and the Virgin Islands) have self-certified as being in compliance with these requirements and are eligible to receive their share of the title IV–B funds appropriated in excess of $141 million as of fiscal year 1989.

If the appropriations for the Child Welfare Services program are $266 million (the authorized level) for 2 consecutive years, each State's allotment is to be reduced to its share of $56.5 million unless it has completed the inventory, information and case review systems, and service program described above and, in addition, has implemented a preplacement preventive service program to help children remain with their families. Appropriations for the program have never reached $266 million.

Ceilings on and transfer of foster care funds

The title IV–E Foster Care program provides States with additional incentives to emphasize child welfare services in lieu of foster care placement, and additional incentives for States to implement foster care protections. Under temporary provisions, which have been extended through fiscal year 1989, the Federal government has established certain ceilings on foster care funds, and enabled States to transfer "unused" foster care funds to their child welfare services programs.

The ceiling amount is based on adjusted foster care expenditures[5] or the State's under age 18 population (see sec. 474 [42 U.S.C. 674]). Any funds within the ceiling amount not expended by the State for foster care are considered unused foster care funds, and may be transferred to support the State's child welfare services program. In order to be eligible to transfer unused foster care funds, States must meet certain requirements intended to protect children in foster care.

States are *required* to operate within their ceiling amounts if the child welfare services appropriation reaches a trigger level, which is currently specified by law to be $266 million (which is also the full authorization level). Under this mandatory ceiling, States may transfer unused foster care funds to child welfare services. However, the funds transferred, together with the State's child welfare services allocation, cannot exceed the State's share of $141 million under the title IV–B allocation formula unless the inventory, information and case review systems, and service program outlined above are implemented. The child welfare services appropriation has triggered the mandatory ceiling in only 1 year—fiscal year 1981—when the trigger level equalled $163.6 million.

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[5] Fiscal year 1978 expenditures, increased annually by two times the Consumer Price Index, up to a maximum of 10 percent.

If the appropriations for child welfare services are $266 million for 2 consecutive years, States may not transfer funds unless they have implemented the above protections as well as a preplacement preventive service program to help children remain with their families. However, the appropriations have not reached $266 million in any year.

States may *choose* to operate within their ceiling amount if the child welfare services appropriation does not reach the trigger amount. In this situation, the States may transfer a certain proportion of unused foster care funds to child welfare services. The amount transferred, together with the State's IV–B allocation, may not exceed what the State would have received if the child welfare services appropriation had triggered the ceiling (i.e., currently $266 million). In addition, as under the mandatory ceiling, the amount transferred, when added to the IV–B allocation for the State, cannot exceed the State's share of $141 million under the allocation formula for child welfare services unless the inventory, information and case review systems, and service program are implemented. If the amount transferred plus direct child welfare services funds for any 2 fiscal years equal the State's share of $266 million under the IV–B allocation formula, the State may not transfer funds unless it has implemented all of the foster care protections noted earlier plus a preplacement preventive service program.

States have had the option of choosing a voluntary ceiling each year since fiscal year 1981, because the appropriations for child welfare services have not been high enough to trigger the mandatory ceiling. However, the financial benefits to States of adopting a voluntary ceiling have decreased as the appropriations for child welfare services have increased in recent years. The reason: the amounts that may be transferred to the IV–B program together with the State's IV–B allocation by law may not exceed the State's share under the IV–B program when it is fully funded. The increased appropriations, in effect, limit the funds that States may transfer to their title IV–B programs under a voluntary ceiling; opting for a voluntary ceiling limits States' foster care expenditures (i.e., States forfeit the open-ended entitlement), while the amounts that can be transferred to child welfare services are reduced. Fewer States have chosen to operate under a voluntary ceiling as child welfare services appropriations have increased. For example, DHHS indicates that while 31 States transferred nearly $33 million in fiscal year 1983, 10 States transferred $5.1 million in fiscal year 1988 (see table 5).

THE TITLE IV–E INDEPENDENT LIVING PROGRAM

Under the foster care program, payments generally end when the child reaches age 18, although some States continue to provide aid to high school students under age 19. The 1985 Budget Reconciliation Act established a new State entitlement program under title IV–E to help States provide services in fiscal years 1987 and 1988 to facilitate the transition of children ages 16 and over from foster care to independent living. Under provisions of the Technical and Miscellaneous Revenue Act of 1988 (P.L. 100–647), this "independent living" program was extended through fiscal year 1989; it was also expanded to apply, at State option, to all children ages 16 and over in foster care (including those who are not receiving AFDC foster care payments) and to apply for up to 6 months after foster care payments or foster care ends for children previously in foster care whose care or payments ended on or after they became age 16.

The services funded under the Independent Living program may include those that enable participants to obtain a high school diploma or receive vocational training; provide training in daily living skills, such as budgeting, career planning, or locating housing; or provide other assistance in making the transition to independent living, such as providing out-reach, counseling, or coordination of relevant services. Funds available under the program may also be used for special training for agency staff and foster parents to increase their skills in assisting the foster child to learn independent living skills and decisionmaking, planning and time management.

Under the Independent Living program, each State's annual entitlement is calculated as a share of $45 million, based on the State's fiscal year 1984 AFDC foster care caseload compared to the U.S. total for the same. Forty-five million dollars were appropriated for the program in each of fiscal years 1987, 1988 and 1989, but States did not begin receiving funds until July 1987. The amendments in the Technical and Miscellaneous Revenue Act provide that States may spend the fiscal year 1987 carryover funds in fiscal year 1989. Table 7 shows the State-by-State distribution of the fiscal year 1988 independent living funds and information from State plans on their projected use of the funds and participation. As this table shows, States planned to use these funds for a wide variety of services for a total of approximately 19,000 children during the year.

TABLE 7.—FOSTER CARE INDEPENDENT LIVING PROGRAM—FISCAL YEAR 1988: SERVICES IN PLANS, NUMBER OF CHILDREN AND FEDERAL AWARDS

State	Services listed in State plans for fiscal year 1988									Actual Federal awards
	Educational/vocational training	Daily living skills	Individual and group counseling	Coordination of services	Outreach programs	Transition plan	Other services	Eligible children	Children participating	
Alabama	X	X	X	X	X	X	X	160	160	$673,527
Alaska										0
Arizona	X	X	X	X	X	X	X	284	128	225,547
Arkansas										0
California	X	X	X	X	X	X	X	5,667	5,096	8,095,232
Colorado	X	X	X	X	X	X		290	290	535,619
Connecticut	X	X	X	X		X		350	350	489,353
Delaware	X	X	X	X		X	X	17	17	131,680
District of Columbia	X	X	X	X	X	X	X	190	140	708,227
Florida	X	X	X	X	X	X	X	456	456	640,163
Georgia	X	X	X	X		X	X	317	271	712,676
Hawaii										0
Idaho										0
Illinois	X	X	X	X	X	X	X	1,000	750	1,827,066
Indiana	X	X	X	X	X	X		146	146	661,516
Iowa	X	X	X	X	X	X	X	336	336	291,832
Kansas	X	X	X	X		X	X	425	425	465,330
Kentucky	X	X	X	X	X	X	X	525	525	513,376
Louisiana	X	X	X	X	X	X	X	486	389	880,835
Maine	X	X	X	X	X	X	X	308	160	367,015

Maryland	X	X	X	X	X	X	X	367	367	802,984
Massachusetts	X	X	X	X	X	X		280	140	412,391
Michigan	X	X		X		X	X	1,190	925	2,705,676
Minnesota	X	X	X	X		X	X	340	311	740,702
Mississippi	X	X	X	X	X	X	X	124	124	333,650
Missouri	X	X	X	X	X	X		192	192	839,907
Montana	X	X	X	X	X	X		70	50	158,372
Nebraska		X	X	X	X	X	X	157	150	282,490
Nevada	X	X	X	X		X	X	43	43	99,650
New Hampshire	X	X	X	X	X	X	X	200	100	207,753
New Jersey	X	X	X	X	X	X		600	600	1,490,302
New Mexico										0
New York	X	X	X	X		X	X	2,670	1,602	7,514,236
North Carolina	X	X	X	X	X	X	X	500	500	677,976
North Dakota	X	X	X	X	X	X		86	50	124,563
Ohio	X	X	X	X	X	X	X	600	600	1,855,537
Oklahoma	X	X	X	X		X		216	216	402,159
Oregon	X	X	X	X	X	X	X	230	230	603,683
Pennsylvania	X	X	X		X	X	X	2,000	900	3,008,186

TABLE 4.—PROGRAM OPERATIONS, SUMMARY OF NATIONAL (FEDERAL AND STATE) STATISTICS, FISCAL YEARS 1978–88—Continued

[Numbers in thousands, dollars in millions]

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Rhode Island		X	X	X	X	X	X	X	100	60	204,194
South Carolina		X	X	X	X	......	X	X	150	135	375,912
South Dakota		X	X	X	X	......	X	......	101	66	125,452
Tennessee		X	X	X	X	X	X	X	200	200	504,478
Texas		X	X	X	X	X	X	X	206	200	1,194,466
Utah		X	X	X	X	X	X	......	89	89	131,236
Vermont		X	X	X	X	......	......	X	95	71	191,737
Virginia		X	X	X	X	......	X	X	350	350	883,059
Washington		X	X	X	X	X	X	X	917	200	535,174
West Virginia		X	X	X	X	X	X	......	232	175	338,098
Wisconsin		X	X	X	X	......	X	X	1,353	894	1,008,067
Wyoming		X	X	......	......	......	X	......	42	23	28,916
Total		45	46	44	44	31	45	33	24,657	18,931	45,000,000

Note:—The information in this table is based on State plans. According to these State plans, 18,931 children will participate in Independent Living Program activities at some time during fiscal year 1988.

Source: Department of Health and Human Services, Office of HDS, ACYF.

THE TITLE IV–E ADOPTION ASSISTANCE PROGRAM [6]

Like AFDC foster care, the Adoption Assistance program is an open-ended entitlement program required of States participating in AFDC. The Adoption Assistance program, which is permanently authorized under title IV–E, requires States to develop adoption assistance agreements with the adoptive parents of children with "special needs." It provides Federal matching payments to States that, under these agreements, provide adoption assistance payments to parents who adopt AFDC- or SSI-eligible children with special needs; and pay the one-time adoption expenses of parents of special needs children (whether or not they are AFDC- or SSI-eligible).

The Federal matching for the adoption assistance payments is based on each State's Medicaid matching rate (which averages about 53 percent nationally). States may also claim up to 50 percent Federal matching for one-time adoption expenses, up to a maximum of $2,000 total expenditures for any placement.[7] States may also claim open-ended Federal matching (50 percent) for the costs of administering the program and for training expenses (75 percent).

A special needs child is defined as having a specific condition or situation, such as ethnic background, age, membership in a sibling group, or mental or physical handicap, which prevents placement without special assistance. Before a child is determined to have special needs, the State must assure that the child cannot or should not be returned to the family and that reasonable efforts have been made to place the child without providing adoption assistance. States have considerable latitude in defining "special needs" eligibility criteria and individually determining whether a child is eligible.

An adoption assistance agreement is a written agreement between the adoptive parents, the State IV–E agency, and other relevant agencies (such as a private adoption agency) specifying the nature and amount of assistance to be given. Under the adoption assistance agreement, States may make monthly adoption assistance payments for AFDC- or SSI-eligible children placed for adoption. The payments are based on the circumstances of the adopting parents and the needs of the child. They may be adjusted periodically if circumstances change, with the concurrence of the adopting parents. However, the payments may not exceed the amount the child might have received under AFDC foster care for foster family care. Adoption assistance payments may continue until the child is age 18 or, at State option, age 21, if the child is mentally or physically handicapped. In addition, payments may be discontinued if the State determines that the parents are no longer legally responsible for the support of the child.

AFDC- or SSI-eligible children with special needs are also eligible for Medicaid if an adoption assistance agreement is in effect, whether or not adoption assistance payments are being made.

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[6] Assistance with this section was provided by Dale Robinson, Analyst in Social Legislation, Education and Public Welfare Division, Congressional Research Service.

[7] The $2,000 limit is specified under the program regulations, Federal Register, v. 53, no. 240., pp. 50215–50221.

States also have the option under the Medicaid program to provide Medicaid coverage for other special needs children (those not eligible for AFDC or SSI benefits) who are adopted if they have been identified as a special category of medically needy children under a State's Medicaid program. Pursuant to the 1985 budget reconciliation legislation, effective October 1, 1986, a child for whom an adoption assistance agreement is in effect is eligible for Medicaid from the State in which the child resides irrespective of whether the State is the one with which the adoptive parents have an adoption assistance agreement.

Since January 1987, the Adoption Assistance program has also authorized Federal matching funds for the payments States make for parents' one-time adoption expenses for special needs children who are covered by an adoption assistance agreement (whether or not the child is AFDC- or SSI-eligible). Prior to January 1, 1987, non-recurring costs of adoption were specifically identified as costs not eligible for Federal matching funds under the title IV–E Adoption Assistance program. Adoptive parents were, however, able to claim as a deduction against their taxable income up to $1,500 of qualified nonrecurring adoption expenses related to the adoption of a child with special needs. Qualified adoption expenses were defined in the tax code as "reasonable and necessary adoption fees, court costs, attorney fees, and other expenses which are directly related to the legal adoption of a child with special needs." The 1986 tax reform legislation repealed the adoption expense deduction. Effective January 1, 1987, however, parents can now get up to $2,000 reimbursement for these expenses under the title IV–E program, and States can claim 50 percent matching for these payments as nonrecurring costs of adoption.

The number of children receiving monthly adoption assistance payments and the Federal expenditures for these payments have increased significantly since the program began. In fiscal year 1981, only 6 States participated in the program, with an average of 165 children receiving payments per month. In fiscal year 1988, 50 States participated, serving an average monthly number of approximately 33,000 children (see table 3).[8] Federal expenditures for the assistance payments portion of the Adoption Assistance program have increased from less than $.4 million in fiscal year 1981 to an estimated $62 million in fiscal year 1988 (see table 2). Table 8 provides State data on monthly adoption assistance claims for fiscal years 1986 through 1989 (estimated), and the estimated 1989 average monthly number of participants.

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[8] States have up to 2 years to make claims under this program; thus data are still estimates.

TABLE 8.—ADOPTION ASSISTANCE: STATE CLAIMS, FISCAL YEARS 1986–89, AND ESTIMATED AVERAGE NUMBER OF CHILDREN RECEIVING ADOPTION ASSISTANCE, FISCAL YEAR 1989

[Dollars in thousands]

Name of State	Fiscal year—				1989 estimated average monthy number of children
	1986 claims	1987 claims	1988 claims (estimate)	1989 claims (estimate)	
Alabama	$174	$207	$237	$280	158
Alaska	23	109	77	91	33
Arizona	553	747	800	944	278
Arkansas	206	406	466	550	159
California	6,920	11,552	15,079	17,785	3,048
Colorado	222	433	461	544	281
Connecticut	270	672	846	998	250
Delaware	46	71	134	158	82
District of Columbia	411	882	1,095	1,291	440
Florida	1,708	3,160	3,500	4,128	1,193
Georgia	94	214	606	715	357
Hawaii	8	17	28	33	19
Idaho	42	61	89	105	76
Illinois	1,985	3,162	3,637	4,290	1,764
Indiana	372	601	926	1,092	584
Iowa	196	277	370	436	314
Kansas	171	224	379	447	327
Kentucky	441	583	833	982	392
Louisiana	433	707	798	941	514
Maine	337	425	550	649	225
Maryland	588	539	829	978	377
Massachusetts	562	809	1,024	1,208	398
Michigan	5,994	7,517	10,122	11,938	3,719
Minnesota	537	650	1,030	1,215	396
Mississippi	290	322	422	498	275
Missouri	955	1,070	1,574	1,856	925
Montana	74	153	145	171	62
Nebraska	320	366	493	581	294
Nevada	14	16	49	58	34
New Hampshire	31	79	107	126	58
New Jersey	2,741	4,384	4,033	4,757	1,277
New Mexico	222	374	621	732	211
New York	16,468	19,322	21,451	25,298	10,285
North Carolina	358	490	631	744	1,401
North Dakota	112	129	154	182	79

TABLE 8.—ADOPTION ASSISTANCE: STATE CLAIMS, FISCAL YEARS 1986–89, AND ESTIMATED AVERAGE NUMBER OF CHILDREN RECEIVING ADOPTION ASSISTANCE, FISCAL YEAR 1989—Continued

[Dollars in thousands]

Name of State	Fiscal year—				1989 estimated average monthy number of children
	1986 claims	1987 claims	1988 claims (estimate)	1989 claims (estimate)	
Ohio	3,490	7,205	8,244	9,723	2,408
Oklahoma	177	252	344	406	178
Oregon	221	277	409	482	295
Pennsylvania	1,145	1,206	1,544	1,821	974
Rhode Island	619	1,308	2,180	2,571	315
South Carolina	383	655	932	1,099	302
South Dakota	55	145	230	271	153
Tennessee	316	476	645	761	348
Texas	1,723	1,824	1,804	2,128	1,069
Utah	152	319	315	372	115
Vermont	269	257	355	419	101
Virginia	345	593	732	863	469
Washington	453	536	762	899	546
West Virginia	255	252	230	271	62
Wisconsin	1,350	2,155	2,405	2,837	784
Wyoming	0	0	17	20	15
Total	54,831	78,187	94,744	111,744	38,419

Source: Department of Health and Human Services, Office of HDS, ACYF.

DHHS data indicate that administrative costs for the Adoption Assistance program have increased significantly during the past 4 years (see table 2). States may claim matching funds for the following administrative activities: recruitment of adoptive homes, placement of the child in the adoptive home, home studies of the prospective adoptive home, case planning, case management, and case review activities during the preadoptive period.

Final data are not yet available for fiscal year 1988 on States' claims for their expenditures for the one-time adoption expenses for parents adopting special needs children, or on the number of children served under this portion of the Adoption Assistance program. Table 2 provides mid-1988 estimates of the expected claims for this portion of the Adoption Assistance program.

THE ADOPTION ASSISTANCE AND CHILD WELFARE AMENDMENTS OF 1980 (P.L. 96-272)

SUMMARY OF PROBLEMS LEADING TO ENACTMENT OF P.L. 96-272

During the time that States were revising their laws and procedures to identify and investigate cases of child abuse and neglect, there was growing evidence that in many cases children were being inappropriately placed or staying too long in foster care. Beginning in the mid-1970's, congressional hearings and investigations related to foster care found evidence of the following:

- —Placement in foster care without first providing alternative services that might help children remain with their families;
- —Placement in foster care that was too restrictive (institutional); too great a distance from their families, and made without regard for their special needs);
- —Lack of a written case plan setting out essential elements of the nature and duration of their foster care;
- —Lack of periodic reviews of the effectiveness of the case plan in conjunction with a judicial determination of the future status of the child;
- —Parents not being apprised of their children's situation and discouragement of parent-child visitation;
- —Failure to provide services to help reunite children with their families;
- —Imposition of unnecessary barriers to adoption for children unable to return home; and
- —Lack of information about the children in foster care, making it difficult to monitor the program of individual children and to evaluate progress in the entire system.

In identifying some of the problems of specific foster care cases, the nature of the Federal financing role in child welfare and foster care became evident as follows:

- —Federal matching funds for foster care maintenance payments under Title IV-A of the Social Security Act was an open-ended entitlement in contrast to minimal increases in appropriations for funding child welfare services programs to prevent the need for foster care or reunify families.
- —Foster care children who were or could be freed for adoption were sometimes not adopted because of the loss of monthly assistance to the foster parents or Medicaid eligibility for the child if the child was adopted.

PUBLIC LAW 96-272

Prior to the enactment of the Adoption Assistance and Child Welfare Amendments of 1980 (P.L. 96-272), the title IV-B Child Welfare Services program was essentially a block grant to the States for child welfare related activities including for example, foster care maintenance payments, social work and family counseling, day care and adoption activities.

The 1980 child welfare reform legislation was enacted in anticipation of significant increases in appropriations for the title IV-B program. Pursuant to P.L. 96-272, title IV-B funds allocated to a State above the 1979 appropriations level of $56.5 million can only be used for child welfare services. Further, as an incentive to States to implement certain procedures and services reforms (including creating a foster care information system, implementing preplacement preventive services, establishing a case plan and case review system, and establishing a reunification services program), and to utilize child welfare services in lieu of initial or continued foster care placement, P.L. 96-272 established certain foster care protections, established ceilings on foster care funds and enabled States, subject to meeting certain conditions, to transfer foster care funds to their child welfare services programs (see the section "Foster Care Protections and Transfer of Foster Care Funds for Child Welfare").

The 1980 legislation also: allowed Federal matching for a limited period for children removed from the home under a voluntary placement agreement; strengthened State plan requirements for eligibility for payments for IV-E foster care or adoption assistance to emphasize protections for foster care children, and provided sanctions for noncompliance; provided that AFDC foster care payments may be made for children in public institutions with up to 25 children; created and permanently authorized the adoption assistance entitlement program under title IV-E.

FOSTER CARE AND ADOPTION INFORMATION

CURRENT INFORMATION LIMITATIONS AND INFORMATION DEVELOPMENT

At the present time, there is not in place a national child welfare, foster care and adoption information system which mandates States to report on the numbers, characteristics and status of children and families that come in contact with child welfare, foster care and adoption agencies and programs.

National data which are available are largely those collected by the American Public Welfare Association through the Voluntary Cooperative Information System (VCIS) which is financed in part by a grant from the Department of Health and Human Services. The VCIS data which are helpful to understanding the foster care population are based on voluntary reports from varying numbers of States and are on all forms of substitute care, including foster care, emergency shelter care, supervised independent living, non-finalized adoptive placements, and all other 24-hour substitute care arrangements except adoption. The reported data do not differentiate between these types of substitute care; their application must take this into account. The data useful to understanding the adoption population are based on the same voluntary reports, and are limited to adoption data which are related to substitute care children only, just a subset of the entire adoption population. The following section makes use of these data to describe, to the extent possible and subject to the various qualifications, the numbers, characteristics and dynamics of the U.S. substitute care and adoption populations. Note that because of the voluntary nature of these data, the VCIS data base is incomplete because not all states provided data for every data item. On the whole, substitute care data are more complete than adoption data.

The 1986 Budget Reconciliation Act (P.L. 99-509) included an amendment which mandates certain studies and reports to Congress related to the feasibility of establishing and elements to be included in a system for the collection of data with respect to foster care and adoption in the United States. The amendment required the Secretary of HHS to establish an Advisory Committee on Adoption and Foster Care Information. On October 1, 1987, the Advisory Committee submitted to the Congress the results of a study which identified the types of data necessary to assess on a continuing basis the incidence, characteristics and status of adoption and foster care and which is useful for developing appropriate national policies. Not later than July 1, 1988, the Secretary of HHS was to submit to Congress a report proposing a method of establishing, administering and financing a system for the collection of data relating to adoption and foster care in the United States including specifying any changes in law that would be necessary. By December 31, 1988, HHS was to promulgate final regulations providing for the implementation of the information system with the full implementation of the system no later than October 1, 1991. According to HHS, those two actions are in progress.

The National Center for State Courts is currently conducting an Adoption Information Improvement Project with funding assistance from the Administration for Children, Youth and Families at HHS. It is understood that following a pilot data collection in five states during fiscal year 1988, the project will begin gathering adoption data from all states in fiscal year 1989. Also, the scope of adoption data covered by this project is much larger than VCIS and includes all types of adoption (as opposed to only those which are related to substitute care children now gathered by VCIS).

BACKGROUND DATA ON THE U.S. SUBSTITUTE CARE POPULATION BASED ON THE VCIS [9]

Various estimates of the total substitute care population indicate that it has remained relatively stable since 1961. During more recent years, the estimated number of children in substitute care appears to have decreased slightly, from more than 300,000 in 1980 to 276,000 in 1984 and 1985. However, the decrease occurred during the early years of the decade and the number of children in substitute care has been increasing since 1982 (see table 9).

Numbers of children in substitute care in fiscal year 1985.—The VCIS estimate of the total number of entrants to substitute care during the fiscal year 1985 period is 190,000 nationally. Thus, 2.4 children in every 1,000 children 20 years of age and under in the country entered substitute care during fiscal year 1985. The VCIS data provide estimates of the U.S. substitute care population at two points of time as follows: at the start of fiscal year 1985, 270,000 children were in substitute care; at the end of fiscal year 1985, 276,000 children were in substitute care. The VCIS estimate of the total number of children served by the nation's substitute care system during fiscal year 1985 is 460,000. The estimated total number of children who left care during the fiscal year 1985 period was 184,000 nationally.

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[9] This subsection draws heavily from "Characteristics of Children in Substitute and Adoptive Care, A Statistical Summary of the VCIS National Child Welfare Data Base," based on FY 1985 data, the Voluntary Cooperative Information System, July 1988.

TABLE 9.—NUMBER OF SUBSTITUTE CARE CHILDREN

End of fiscal year	Estimator	Total
1979	OCR	302,000
1980 [1]	CWLA	274,000
1982	VCIS	262,000
1983	VCIS	269,000
1984	VCIS	276,000
1985	VCIS	276,000

[1] Data reflect some point during the year 1980.

Source: Child Welfare Research Notes, No. 18 (May 1987); and "Characteristics of Children in Substitute and Adoptive Care, A Statistical Summary of the VCIS National Child Welfare Data Base," based on FY 1985 data, the Voluntary Cooperative Information System, July 1988.

Data on length of time in substitute care.—Close to 23 percent of the children in care at the end of fiscal year 1985 had been in care less than 6 months; 17 percent had resided in care between 6 months and 1 year. Another 21 percent of the children had been in care at least 1 year but less than 2 years. Altogether about 61 percent of the children had been in care for less than 2 years. Thirty-eight percent of the children had been in care for more than 2 years. Twelve percent had been in care between 2 and 3 years, 11 percent had been in care from 3 to 5 years, and 14 percent had been in care for 5 or more years. The median length of continuous time spent in care for these children was 1.5 years. Table 10 presents recent historical data on the time spent in care for children in care at a given point in time for selected years between 1977 and 1985. Although the results of these comparisons must be interpreted very cautiously because of methodological and definitional differences among the given studies, they indicate, in a general manner, the recent trends regarding the length of continuous time children in care at a point in time have spent in care. As shown in the table, the median length of time in care appears to have become shorter between 1977 and 1982, and to have remained around 18 months between 1982 and 1985.

TABLE 10.—VARIOUS STATISTICAL FINDINGS FOR THE LENGTH OF STAY IN SUBSTITUTE CARE FOR THOSE IN CARE AT A GIVEN POINT IN TIME

Source	First quartile (months)	Median (years)	Third quartile (years)	Ninth decile (years)
Westat (1977)	[1] 11.2	2.4	[1] 5.8	[1] 8.8
OCR (1980)		2.1	4.6	7.7
VCIS (fiscal year 1982) [2]	6.9	1.7	4.3	7.4
Maximus (1982)		1.5		
VCIS (fiscal year 1983) [3]	6.8	1.6	3.5	6.5
VCIS (fiscal year 1984) [4]	6.2	1.5	3.3	6.0
VCIS (fiscal year 1985) [5]	6.7	1.5	3.2	5.9

[1] These figures were obtained through a secondary analysis of the original data.
[2] The figures were computed using data from 26 States.
[3] The figures were computed using data from 27 States.
[4] The figures were computed using data from 27 States.
[5] The figures were computed using data from 31 States.

Source: "Characteristics of Children in Substitute and Adoptive Care," VCIS, July 1988.

Of those children *leaving* care during fiscal year 1985, 43 percent had been in continuous care for less than 6 months, 14 percent had been in care for 6 to 12 months, and 17 percent had been in care between 1 and 2 years. Additionally, 8 percent of the children had been in care for 2 to 3 years, 8 percent for 3 to 5 years, and almost 10 percent for 5 years or more. The median length of time spent in continuous care was 8.9 months. Unfortunately, data for prior years on total continuous time in care for those leaving care are not available.

Characteristics of entrants to substitute care.—Based on the VCIS data, 75 percent of the children who entered care during fiscal year 1985 were new entrants, while 25 percent of the children were reentrants. A majority of children—59 percent—entered care due to a protective service reason such as abuse or neglect. Parental conditions or absence accounted for another 16 percent of the entrants. It is significant to note that the above-mentioned two reasons are those over which a child has little or no control. Child-related reasons account for only 11.6 percent of the entrants to care, with close to 10 percent due to status offense/delinquent behavior and 2 percent because of child disability. Additionally, a very small percentage (1.9) of the children entered substitute care due to relinquishment of parental rights, while about 9 percent entered care for various other reasons (parent-child relationship problem, family interaction problem, plan for adoption, subsidized adoption, deinstitutionalization, training/education, and unwed motherhood).

Children ages 13 and over accounted for over 39 percent of the children who entered care, followed by children between 6 and 12 years of age (26 percent), and children between 1 and 5 years of age (25 percent). Infants (i.e., under 1 year old) represented 10 percent of entrants. The median age of entrants was 10.2 years.

Nearly three-fifths (58 percent) of the entrants were non-Hispanic white, 24 percent were non-Hispanic black and 10 percent were Hispanic. A small percentage (6 percent) represented all other racial/ethnic groups.

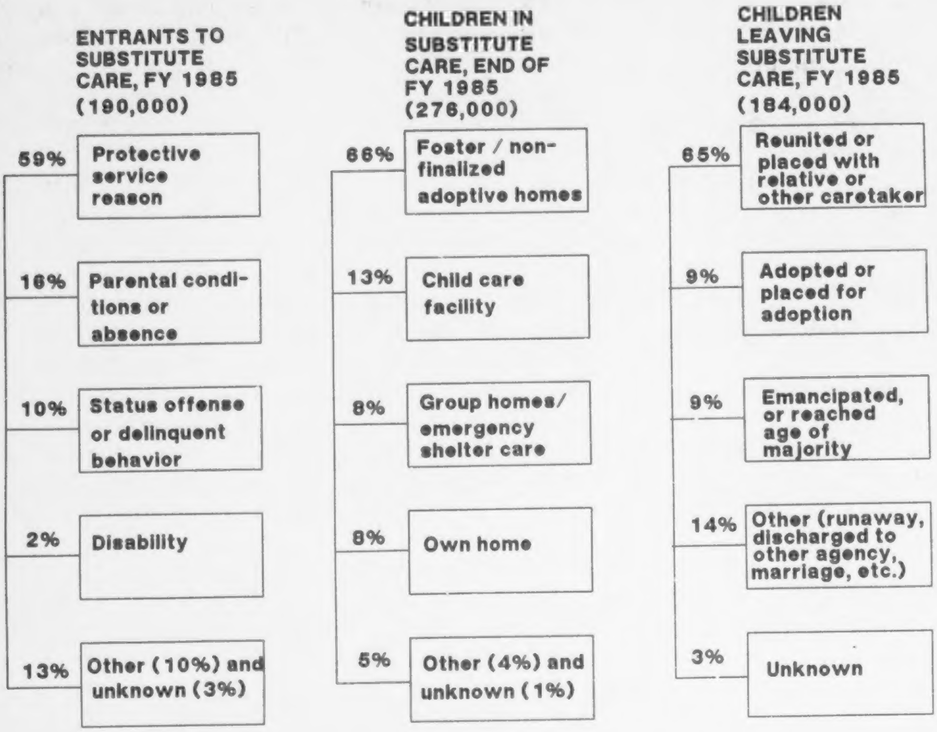
Characteristics of children in substitute care.—Over two-fifths (45 percent) of children in substitute care at the end of fiscal year 1985 were 13 years old or older. A little more than one-fourth (29 percent) were between 6 and 12 years old, 22 percent were between 1 and 5 years old, and 3 percent were less than 1 year old. The median age of children in care at the end of fiscal year 1985 was 11.9 years old.

Over one-half (52 percent) of the children in care at the end of fiscal year 1985 were non-Hispanic white; non-Hispanic black children accounted for about 33 percent. Less than one-tenth (9 percent) were Hispanic children, and a small percentage, 5.1 percent, represented all other racial groups.

About 66 percent of the children were residing in foster family homes (including adoptive foster homes or non-finalized adoptive homes). Additionally, slightly more than one-fifth (21 percent) of the children were living in group homes, emergency shelter facilities, or other types of child care facilities such as residential treatment centers. Further, it was found that some children (8 percent) were living in their own homes and receiving post-placement supervision from the agency but a very small percentage of children (1 percent) were living independently. Finally, most of the remaining children (3 percent) were residing in various other types of arrangements (including maternity homes, hospitals, college dormitories, mental retardation facilities and correctional institutions).

About 57 percent of the children in care at the end of fiscal year 1985 had a permanency plan goal to be reunified/placed with a parent, which appears to be a significant increase over prior fiscal years (see table 11). A total of 15 percent of the children had a goal of long-term foster care, 13 percent had a goal of adoption, and 8 percent had a goal of independent living.

CHART 1. REASONS FOR ENTRANCE TO AND EXIT FROM SUBSTITUTE CARE, AND TYPES OF SUBSTITUTE CARE, FY 1985


ENTRANTS TO SUBSTITUTE CARE, FY 1985 (190,000)
59%
Protective service reason
16%
Parental conditions or absence
10%
Status offense or delinquent behavior
2%
Disability
13%
Other (10%) and unknown (3%)
CHILDREN IN SUBSTITUTE CARE, END OF FY 1985 (276,000)
66%
Foster / non-finalized adoptive homes
13%
Child care facility
8%
Group homes/ emergency shelter care
8%
Own home
5%
Other (4%) and unknown (1%)
CHILDREN LEAVING SUBSTITUTE CARE, FY 1985 (184,000)
65%
Reunited or placed with relative or other caretaker
9%
Adopted or placed for adoption
9%
Emancipated, or reached age of majority
14%
Other (runaway, discharged to other agency, marriage, etc.)
3%
Unknown

Source: The Voluntary Cooperative Information System (VCIS)
National Child Welfare Data Base, based on FY 85 data.

TABLE 11.—MOST RECENT PERMANENCY PLAN GOALS OF CHILDREN IN SUBSTITUTE CARE AT THE END OF FISCAL YEARS 1982–85

[In percent]

	Permanency plan goal					Total substitute care population [2]
	Reunify/ place with parent/ relative	Adoption	Independent living	Long-term foster care	Other [1]	
Fiscal year:						
1985	57.1	13.1	7.9	14.9	7.0	68.0
1984	50.8	14.1	8.7	16.8	9.6	73.9
1983	46.6	14.7	10.2	18.4	10.1	67.9
1982	39.2	16.5	10.6	18.7	15.0	74.1

[1] Includes "no goal other than care/protection" and "unknown."

[2] Percentage of population upon which estimates are based.

Sources: VCIS/APWA child welfare data for fiscal year 1982 (No. 14), fiscal year 1983 (No. 15), fiscal year 1984 (No. 14), and fiscal year 1985 (No. 14).

Close to 87 percent of the children had placements without termination or relinquishment of parental rights while slightly less than 10 percent had court-ordered placements with termination or relinquishment of parental rights. It appears that the great majority of the children in care whose parental rights were terminated or relinquished were legally free for adoption with a plan for adoption.

The VCIS also collected data on the number of placements the children in care at the end of fiscal year 1985 had experienced during the preceding 3 years. For over 50 percent of the children, the current placement was the first one. However, for 22 percent of the children, the current placement was the second one, and over 20 percent had experienced 2 to 4 placements prior to the current placement. Additionally, some children (6 percent) had 5 or more previous placements during the preceding 3 years.

Characteristics of children who left substitute care.—Almost 59 percent of the children who left care were non-Hispanic white children, while non-Hispanic black children accounted for almost 25 percent. Less than 9 percent of the children who left care during the fiscal year 1985 period were Hispanic children; children of other racial/ethnic categories accounted for the remaining 6 percent.

Over 65 percent of the children who left care in fiscal year 1985 were either reunited or placed with a parent, relative or caretaker, a significant increase over prior fiscal years (see table 12). About 9 percent were adopted or placed for adoption, and 9 percent were emancipated or reached the age of majority. Close to 14 percent of the children left for other reasons, including running away, incarceration, marriage, death, being discharged to another public agency, or having legal guardianship established.

TABLE 12.—OUTCOMES FOR CHILDREN WHO LEFT SUBSTITUTE CARE FOR FISCAL YEARS 1982–85

[In percent]

	Outcomes					Total substitute care population [1]
	Reunited/placed with parent/relative	Adopted or placed for adoption	Reached majority/emancipated	Other outcomes	Unknown	
Fiscal year:						
1985	65.3	8.8	9.0	13.5	3.4	59.6
1984	62.4	9.9	9.3	16.3	2.1	57.3
1983	56.3	11.5	9.4	20.3	2.5	51.3
1982	49.7	10.4	33.4	(2)	6.5	39.6

[1] Percentage of population upon which estimates are based.

[2] For the fiscal year 1982 data, the category of "Other Outcomes" was included in the category "Reached Majority/Emancipated."

Sources: APWA/VCIS child welfare data for fiscal year 1982 (No. 4), fiscal year 1983 (No. 4a), fiscal year 1984 (No. 4a), and fiscal year 1985 (No. 4a).

BACKGROUND DATA ON THE U.S. ADOPTION POPULATION IN SUBSTITUTE CARE, BASED ON THE VCIS [10]

An estimated total of 38,000–40,000 children in substitute care had a permanency planning goal of adoption at the end of fiscal year 1984 (although all of these children were not legally free for adoption). During fiscal year 1985, adoptions were finalized for between 17,000 and 20,000 children. At the end of fiscal year 1985, about 37,000 to 39,000 children were legally free for adoption.

At the end of fiscal year 1985, 51 percent of the children free for adoption had one or more special needs (i.e., age, disability, minority or sibling group status); 62 percent of those children with finalized adoptions in fiscal year 1985 had one or more special needs.

Of those children legally free for adoption and awaiting placement at the end of fiscal year 1985, more than one-half were non-Hispanic white (52 percent), nearly two-fifths (38 percent) were non-Hispanic black, 7 percent were Hispanic and the remainder were other racial/ethnic groups. Of those children whose adoptions were finalized that year, 58 percent were white, 23 percent were black, 9 percent were Hispanic and the remainder were other racial/ethnic groups.

Forty-four percent of the children awaiting adoption at the end of fiscal year 1985 were ages 6 through 12; one-fourth were ages 13 through 18; and slightly more than one-fourth were ages 5 or less. The median age of children awaiting adoption was 9.1 years. For those children whose adoptions were finalized in fiscal year 1984, about two-fifths were ages 1 through 5; one-third were ages 6 through 12; 11 percent were ages 13 through 18; and 10 percent were infants under age 1. The median age of those children who were adopted was 5.6 years.

BACKGROUND DATA ON THE POPULATION IN NEED OF SERVICES

Data on social problems that are a common focus of child welfare services—such as incidents of child abuse or neglect, numbers of runaway children, and family homelessness—are sometimes used to show the need for both child protection and early intervention services. Although these data do not represent the absolute number of children or families in need of services, changes in the numbers of people experiencing these problems are often interpreted as suggesting trends in the need for services.

CHILD ABUSE AND NEGLECT

All States require instances of child abuse or neglect to be reported and promptly investigated. Intervention on behalf of the child is also required when necessary. Since each reported incident must be investigated, increases in the number of reported incidents—whether or not substantiated—indicate an increased use of child welfare systems. Moreover, available data suggest that nearly half of the children in foster care were placed there because of maltreatment.

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[10] This subsection draws directly from "Characteristics of Children in Substitute and Adoptive Care, A Statistical Summary of the VCIS National Child Welfare Data Base," based on fiscal year 1985 data, the Voluntary Cooperative Information System, July 1988.

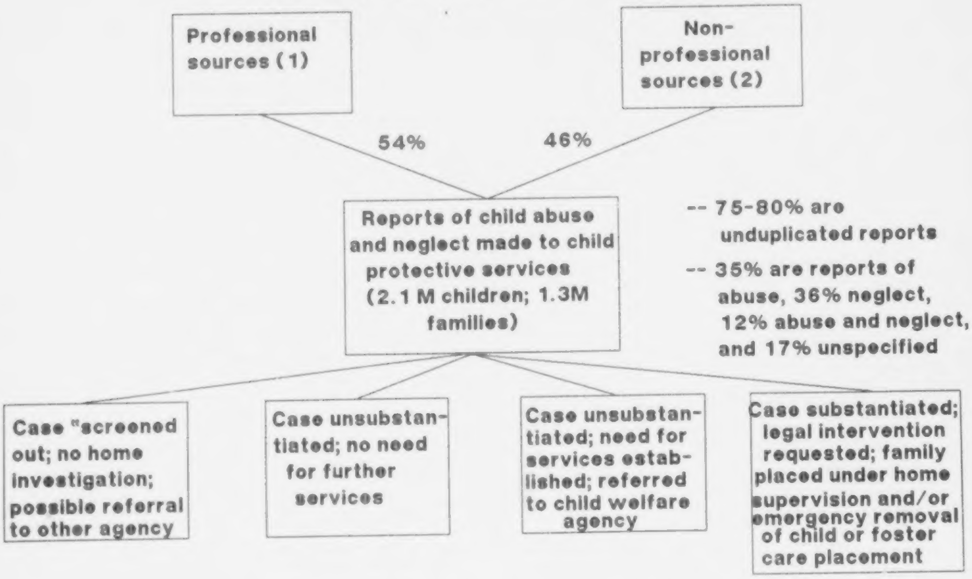
State statutory provisions for mandatory reporting of non-accidental injury and neglect of children generally include several components. Definitions of reportable conditions include physical and sexual abuse, neglect and other conditions, the definitions of which vary from State to State. Examples of those required to report include physicians, nurses, social workers, child care workers, and police officers. States have 24-hour-a-day telephone hotlines as a means for others in the community to report suspected cases of abuse or neglect. State laws designate which public agencies have the legal authority to investigate reports of child abuse or neglect, and generally include a public social services agency, an agency with responsibility related to youth and the police. There are variations in the requirements in State laws and policies as to the allowable time lapse between the time of the receipt of the report and the home investigation. Generally, cases involving older children reported to have been neglected have a longer required response time in comparison to cases of alleged abuse of younger children—especially cases of sexual abuse.

The agency receiving the abuse and/or neglect report generally disposes of the report in one of several ways. A report may be "screened out" if the State agency involved finds that, based upon established criteria, no home investigation is warranted. If a case is not screened out, the agency investigates the report and, based upon information gathered, determines whether there is any need for further action or services. If the agency determines that there is no need for further action or services, the case is closed and is called an "unsubstantiated report." If the agency makes a home investigation and finds insufficient evidence to indicate abuse or neglect, it may still determine a need for social services or other assistance for the family. Finally, the investigating agency may indeed determine that there is sufficient evidence of abuse or neglect and that some legal action is necessary for emergency and/or long-term intervention by the agency and the courts.

Intervention into the actual relationship between a child and his or her parents or legal caretaker may, with considerable variation among the States, take one of several forms. The child may be removed from the home for emergency, short-term placement. In some States, the result of a family or juvenile court finding that a child has been "neglected" may be that the court orders "home supervision" under which the agency supervises the family's home life, counsels the parents and/or provides other social services. All States have laws which provide for the removal of the child from his or her home and placement in foster care pursuant to a judicial determination that continuation in the home would be contrary to the welfare of the child.

According to data collected by the American Humane Association, reported incidents of child abuse and neglect increased more than 200 percent from 1976 to 1986, from 669,000 cases to more than 2 million.[11] A study conducted by Westat for HHS in 1980 and 1986 also found there were increased reports of abuse and neglect during that period. Although there is not general agreement on the degree of increased reporting or on whether the data indicate a real increase in child maltreatment or merely better reporting of these incidents, it is generally acknowledged that the incidence of child abuse and neglect is probably underreported for a variety of reasons. These include the stigma and secretiveness attached to the act, which must be discovered to be reported, and difficulties involved in determining whether injuries suffered by a child were due to abuse or other causes. Some experts argue that reported cases represent only one-third to one-fifth of all such cases.

CHART 2. CASES OF CHILD ABUSE AND NEGLECT REPORTED TO CHILD PROTECTIVE SERVICES AGENCIES DURING 1986


Professional sources (1)
Non-professional sources (2)
54%
46%
Reports of child abuse and neglect made to child protective services (2.1 M children; 1.3M families)
-- 75-80% are unduplicated reports
-- 35% are reports of abuse, 36% neglect, 12% abuse and neglect, and 17% unspecified
Case "screened out; no home investigation; possible referral to other agency
Case unsubstantiated; no need for further services
Case unsubstantiated; need for services established; referred to child welfare agency
Case substantiated; legal intervention requested; family placed under home supervision and/or emergency removal of child or foster care placement

(1) Professional sources include: medical personnel, school personnel, law enforcement, social services, and child care providers.

(2) Nonprofessional sources include: friends, neighbors, relatives, self; anonymous; and other sources (e.g., landlord, religious personnel).

RUNAWAY YOUTH[12]

Runaway youth are commonly seen as a population in need of a wide variety of child welfare services. Data from the Runaway and Homeless Youth program indicate that of the nearly 50,000 runaway and homeless youth on whom we have detailed data during a 21-month period, most of the runaways reported leaving home due to some kind of parental conflict, including neglect and physical abuse. Estimates of the total runaway and homeless youth population are as high as 1 million. Service providers have noted an increase over the past few years in the number of youth attributing their flight to parental abuse; however, the increased reporting may be due in part to society's increased willingness to address issues of parental abuse and family conflict.

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[11] Highlights of Official Child Abuse and Neglect Reporting 1986. The American Humane Association, Denver, Colorado, p. 7–8.

[12] Assistance with this section was provided by Ruth Wasem, Analyst in Social Legislation, Education and Public Welfare Division, Congressional Research Service.

HOMELESS FAMILIES[13]

The growing presence of homeless families throughout the country in recent years has elicited concerns that this also represents a growing population potentially in need of child welfare services. Although the exact number of homeless persons is not known, estimates range from a quarter of a million to 3 million people. Estimates of the proportion of the homeless who are part of a family unit range from one-tenth to over one-half and there is a general belief, reinforced by reports from those serving the homeless, that the percentage of homeless families with children is increasing. The U.S. Conference of Mayors estimates that one-third of the homeless are families with children. Moreover, while homelessness may reflect the outcome of multiple problems, family stress is often reported as a major reason for homelessness. State and local governments have reported increases in the need for services for these people over the past few years.

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[13] See U.S. Library of Congress. Congressional Research Service. Homelessness: Issues and Legislation in 1988. Issue Brief No. IB88070, by Ruth Ellen Wasem for detailed information on the homeless.

Section 12. Tax Expenditures and Other Tax Provisions Related to Retirement, Health, Poverty, Employment, and Disability

INTRODUCTION

A significant portion of the Federal budget consists of direct payments to individuals for retirement, health, public assistance, employment, and disability benefits provided pursuant to entitlement programs. Such programs include: Social Security, veterans' pensions, Medicare, Medicaid, food stamps, Aid to Families with Dependent Children, and Supplemental Security Income.

It is perhaps less well recognized that the Federal Government also provides indirect payments to individuals, by means of special income tax deductions, exclusions, and credits related to health and other social policy objectives. These expenditures through the tax system (so-called tax expenditures) are described in this section.

CONCEPT OF TAX EXPENDITURES

Tax expenditure estimates measure the decreases in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, and deferrals of tax liability.[1]

The term "tax expenditure" reflects the assumption that the goals of these favorable tax provisions in many cases could be accomplished by replacing them with direct expenditure programs. Tax expenditures can be viewed as entitlement programs—spending programs that are not subject to the annual appropriations process and that are available as entitlements to eligible individuals and corporations. Tax expenditure provisions, unlike direct spending programs, are administered by the Internal Revenue Service.

The definition of tax expenditures used in this report is consistent with the Congressional Budget Act: i.e., ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." The legislative history of the Act indicates that tax expenditures are to be defined with reference to a normal income tax structure.[2] The measurement of tax expenditures is discussed at the end of this section.

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[1] Tax expenditure information is provided in annual publications of the Joint Committee on Taxation and in the President's budget. Special Analysis G of the budget contains two tables which estimate the outlay equivalent of, and the revenue loss from, each tax expenditure. The House and Senate Budget Committees publish tax expenditure revenue loss estimates in their reports that accompany budget resolutions reported to their respective houses.

TAX EXPENDITURE ESTIMATES

The revenue loss in fiscal year 1990 attributable to tax expenditures related to retirement, health, poverty, employment, and disability is estimated to be $138.3 billion (see table 1).[3] Tax expenditures related to retirement and health comprise $123.4 billion of this amount, or 89.2 percent. By comparison, the Congressional Budget Office estimates that outlays for Social Security, veterans' pensions, Medicare, and Medicaid amounted to $387.5 billion in fiscal 1988, representing over 77 percent of projected outlays for entitlements and other mandatory spending.[4]

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[2] As defined in the Congressional Budget Act, the concept of tax expenditures refers to the corporate and individual income taxes. Federal excise, employment, and estate and gift taxes also have exceptions, exclusions, refunds and credits, which are not included in this section.

[3] Each tax expenditure item is measured without regard to other items. Thus, the addition of various tax expenditure items may be misleading (see discussion of tax expenditure measurement at the end of this section).

[4] CBO, *The Economic and Budget Outlook: Fiscal Years 1990–1994*, (February 1989) p. 136.

TABLE 1.—TAX EXPENDITURE ESTIMATES: FISCAL YEARS 1990–94 [1]

[Billions of dollars]

Item	1990	1991	1992	1993	1994
Tax Expenditures Related to Retirement:					
Net exclusion of pension contributions and earnings	48.5	51.3	54.4	57.6	61.1
Individual retirement plans	9.1	9.6	10.3	11.2	12.2
Exclusion of social security and railroad retirement benefits:					
Social security benefits [3]	21.0	23.0	25.2	27.6	30.2
Railroad retirement system benefits	.4	.4	.4	.5	.5
Tax Expenditures Related to Health:					
Exclusions of employer contributions for medical insurance premiums and medical care	32.6	36.7	40.1	45.3	50.8
Exclusion of Medicare benefits:					
Medicare Part A	5.8	6.9	7.8	8.9	9.9
Medicare Part B	3.2	3.9	4.6	5.5	6.5
Deductibility of medical expenses	2.8	2.9	3.1	3.2	3.3
Tax Expenditures Related to Poverty:					
Earned income tax credit:					
Nonrefundable portion	1.1	1.2	1.2	1.3	1.4
Refundable portion	4.4	4.8	5.2	5.5	6.0
Exclusion of public assistance and SSI cash benefits	.3	.3	.3	.4	.4
Tax Expenditures Related to Employment:					
Dependent care credit	3.9	4.1	4.2	4.4	4.6
Exclusion of employer-provided dependent care	.3	.5	.7	.8	.9
Targeted jobs tax credit	.4	.3	.1	.1	(2)
Tax Expenditures Related to Elderly and Disabled:					
Exclusion of workmens' compensation and special benefits for disabled coal miners:					
Workmen's compensation	2.2	2.3	2.4	2.5	2.6
Special benefits for disabled coal miners	.1	.1	.1	.1	.1
Additional standard deduction for elderly and blind	1.5	1.7	1.9	2.1	2.4

TABLE 1.—TAX EXPENDITURE ESTIMATES: FISCAL YEARS 1990–94 [1]—Continued

[Billions of dollars]

Item	1990	1991	1992	1993	1994
Tax credit for elderly and disabled	.1	.1	.1	.1	.1
Low Income Housing Credit	.6	.7	.7	.7	.7
Total	138.3	150.8	162.8	177.8	193.7

[1] Tax expenditure estimates are based on the tax law enacted through December 31, 1988.
[2] Less than $50 million.
[3] Includes disability insurance benefits, OASI benefits for retired workers, and benefits for dependents and survivors.

Source: Joint Committee on Taxation.

NET EXCLUSION OF PENSION CONTRIBUTIONS AND EARNINGS

Legislative history

Prior to 1921, no special tax treatment applied to employee retirement trusts. Retirement payments to employees and contributions to pension trusts were deductible by the employer as an ordinary and necessary business expense. Employees were taxed on amounts actually received as well as on employer contributions to a trust if there was a reasonable expectation of benefits accruing from the trust.

Since 1921, in order to stimulate the adoption of retirement plans by employers, the Internal Revenue Code has specifically provided that certain employee trusts are exempt from Federal income tax. The 1921 Code provided an exemption for a trust forming part of a qualified profit-sharing or stock bonus plan. The 1926 Code provided a similar exemption for qualified pension trusts and established deduction limits to limit the extent to which tax-favored treatment would be available under qualified plans. A number of changes to the qualification rules and deduction limits were made prior to the enactment of the 1954 Code.

The special tax treatment afforded employee trusts was retained in the 1954 Code. Section 401(a) (and sections referred to therein) contains the basic qualification standards which a trust must satisfy in order to be exempt from tax under section 501(a); section 404 limits the amount of contributions that can be deducted; and sections 402 and 72 govern the taxation of benefits distributed to employees.

The standards applicable to qualified plans have been revised over time to reflect Congressional concerns related to the expansion of pension, profit-sharing, and stock bonus plans and the prevention of tax abuses. The rules relating to qualified plans were substantially revised by the Employee Retirement Income Security Act of 1974 (ERISA), which added minimum participation, coverage, vesting, benefit accrual, and funding requirements, and overall limits on contributions and benefits. Further revisions of these rules were made by the Tax Reform Act of 1976, the Revenue Act of 1978, the Multiemployer Pension Plan Protection Act of 1980, the Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984, the Retirement Equity Act of 1984, the Tax Reform Act of 1986, the Consolidated Omnibus Budget Reconciliation Act of 1986, and the Omnibus Budget Reconciliation Act of 1987 (including the Pension Protection Act).

Prior to the enactment of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), different rules applied to retirement plans maintained by incorporated employers and unincorporated employers (such as partnerships). In general, plans maintained by unincorporated employers were subject to special rules in addition to the other qualification requirements of the Code. TEFRA generally eliminated this disparity and applied the same rules to qualified plans without regard to whether or not the employer is incorporated. TEFRA also modified the limits on contributions and benefits applicable to tax-qualified retirement plans.

The Retirement Equity Act of 1984 (REA) reflected Congressional concern that the prior-law qualification rules did not adequately reflect changing work patterns of workers and their spouses and did not provide adequate protections for the surviving spouse of a worker. REA made a number of changes to the qualification rules designed to increase the rights of workers and their spouses including modifications of the minimum participation requirements, the rules relating to what service must be taken into account for purposes of vesting and benefit accrual (including special rules relating to maternity or paternity leave), the rules relating to spousal survivor benefits, the distribution of qualified plan benefits upon divorce, and the protection of accrued benefits.

The Tax Reform Act of 1986 made substantial modifications to the limits on deductions for contributions to qualified plans, tax treatment of distributions from such plans, and the qualification rules. These provisions reflect continued Congressional concern that the special tax benefits for qualified plans should only be available if retirement benefits are provided on a nondiscriminatory basis, the benefits are within certain limits, and the benefits are generally used for retirement purposes.

The Omnibus Consolidated Budget Reconciliation Act of 1987 (including the Pension Protection Act) modified the minimum funding requirements applicable to single-employer defined benefit pension plans and the maximum amount that may be deducted for contributions to such plans. These changes were designed to eliminate excessive overfunding and underfunding of defined benefit pension plans.

Explanation of provision

In general.—Under a plan of deferred compensation that meets the qualification standards of the Internal Revenue Code (a qualified plan), an employer is allowed a deduction for contributions (within the limits of sec. 404) to a tax-exempt trust to provide employee benefits. Similar rules apply to plans funded with annuity contracts. An employer that makes contributions to a qualified plan in excess of the deduction limits is subject to a 10-percent excise tax on such excess (sec. 4972). In the event of a termination of a defined benefit pension plan, any assets remaining after satisfaction of the plan's liabilities may revert to the employer. Such reversions are subject to a 15-percent excise tax payable by the employer.

The qualification rules for pension, profit-sharing, and stock bonus plans are contained in section 401(a) and sections referred to therein. These rules limit the amount of benefits that can be provided through a qualified plan, and require that benefits be provided on a basis that does not discriminate in favor of highly compensated employees. In addition, qualified plans are required to meet minimum standards relating to participation (the restrictions that may be imposed on participation in the plan), coverage (the portion of employees participating in the plan), vesting (the time at which an employee's benefit becomes nonforfeitable), and benefit accrual (the rate at which an employee earns a benefit). Also, minimum funding standards apply to the rate at which employer contributions are required to be made to the plan to ensure the solvency of pension plans.

Minimum participation rules.—A qualified plan may not require as a condition of participation that an employee complete more than one year of service or be older than age 21 (sec. 410(a)).

Vesting rules.—A plan is not a qualified plan unless a participant's employer-provided benefit vests at least as rapidly as under one of two alternative minimum vesting schedules (sec. 411). A plan satisfies the first schedule if a participant has a nonforfeitable right to 100 percent of the participant's accrued benefit derived from employer contributions upon the participant's completion of 5 years of service. A plan satisfies the second schedule if a participant has a nonforfeitable right to at least 20 percent of the participant's accrued benefit derived from employer contributions after 3 years of service, 40 percent after 4 years of service, 60 percent after 5 years of service, 80 percent after 6 years of service, and 100 percent after 7 years of service.[5]

Benefit accrual rules.—The protection afforded employees under the minimum vesting rules depends not only on the minimum vesting percentages, but also on the accrued benefits to which these percentages are applied. In the case of a defined contribution plan, the accrued benefit is the participant's account balance. In the case of a defined benefit plan, a participant's accrued benefit is determined under the plan benefit formula, subject to certain restrictions. In general, the accrued benefit is defined in terms of the benefit payable at normal retirement age and does not include certain ancillary nonretirement benefits.

Each defined benefit plan is required to satisfy one of three accrued benefit tests. The primary purpose of these tests is to prevent undue backloading of benefit accruals (i.e., by providing low rates of benefit accrual in the employee's early years of service when the employee is most likely to leave and by concentrating the accrual of benefits in the employee's later years of service when he or she is most likely to remain with the employer until retirement).

Coverage rules.—A plan is not qualified unless the plan satisfies at least one of the following coverage requirements: (1) the plan benefits at least 70 percent of all nonhighly compensated employees, (2) the plan benefits a percentage of nonhighly compensated employees that is at least 70 percent of the percentage of highly compensated employees benefiting under the plan, or (3) the plan meets the average benefits test (sec. 410(b)). A plan meets the average benefits test if (1) the plan benefits such employees as qualify under a classification set up by the employer and found by the Secretary of the Treasury not to discriminate in favor of highly compensated employees, and (2) the average benefit percentage for nonhighly compensated employees of the employer is at least 70 percent of the average benefit percentage for highly compensated employees of the employer.

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[5] These rules generally apply to participants with at least one hour of service in a plan year beginning on or after January 1, 1989. Other rules apply with respect to participants who do not have such an hour of service. In addition, special vesting rules apply in certain cases, for example, in the case of top-heavy plans and multiemployer plans.

In addition, a plan is not a qualified plan unless it benefits the lesser of (1) 50 employees or (2) 40 percent of the employees of the employer (sec. 401(a)(26)).

General nondiscrimination rule.—In general, a plan is not a qualified plan if the contributions or benefits under the plan discriminate in favor of high compensated employees (sec. 401(a)(4)). A plan is not considered discriminatory under this provision if the contributions or benefits bear a uniform relationship to compensation or if the contributions or benefits are integrated with social security benefits in accordance with certain rules (secs. 401(a)(5), 401(l)).

Limitations on contributions and benefits.—The maximum annual benefit that may be provided by a defined benefit pension plan (payable at the social security retirement age) is the lesser of (1) 100 percent of average compensation, or (2) $98,064 (for 1989) (sec. 415(b)). The dollar limit is adjusted annually for cost of living increases. The dollar limit is reduced if payment of benefits begin before the social security retirement age, and increased if benefits begin after the social security retirement age.

The maximum annual addition that can be made to a defined contribution plan is the lesser of (1) 25 percent of compensation, or (2) $30,000 (sec. 415(c)). Cost of living adjustments will be made to the $30,000 limit when it equals one-fourth of the dollar limit applicable to defined benefit pension plans.

An overall limit applies if an individual participates in both a defined contribution plan and a defined benefit plan of the same employer (sec. 415(e)).

Funding rules.—Pension plans are required to meet a minimum funding standard for each plan year (sec. 412). In the case of a defined benefit pension plan, the minimum funding rules generally require that an employer contribute an annual amount sufficient to fund a portion of participants' projected benefits determined in accordance with one of several prescribed funding methods, using reasonable actuarial assumptions. In addition, defined benefit pension plans with funded ratios of less than 100 percent are subject to additional, faster funding rules (sec. 414(l)).

Taxation of distributions.—Under sections 402 and 72, an employee who participates in a qualified plan is taxed when the employee receives a distribution from the plan (to the extent the distribution is not attributable to employee contributions). With certain exceptions, a 10-percent additional income tax is imposed on early distributions from a qualified plan. A 15-percent excise tax is imposed on distributions which exceed a certain amount in any year (sec. 4980A).

Failure to satisfy qualification requirements.—If a plan fails to satisfy the qualification requirements, the trust holding plan assets is not tax-exempt, an employer's deduction for plan contributions is allowed when the employee includes the contributions or benefits in income, and benefits generally are includible in an employee's income when they are no longer subject to a substantial risk of forfeiture.

Effect of provision

The exclusion of pension contributions and earnings from tax has encouraged employers to establish retirement plans that meet the qualification requirements of the Code. In addition, the preferential tax treatment of employee contributions to qualified plans may encourage employees to increase their total level of savings. Deferral of tax on both the principal and accumulated earnings constitutes the tax benefit for the employee. Deferral of tax effectively raises the employee's rate of return on his retirement assets.

For example, assume the employee is always taxed at a 15-percent marginal rate. If the employer makes a one-time payment of $1,000 into a qualified pension plan for the employee, the plan earns 8 percent per year, and the contribution and earnings are not taxed until they are withdrawn, after 10 years, the principal and accumulated earnings would total $2,158.93. After tax, $1,835.09 would be available to the employee. If, on the other hand, the original contribution was taxable income to the employee and annual earnings had been taxed as earned, the employee would have $1,641.09 accumulated in the account or approximately 10 percent less than the amount accumulated when the contributions and earnings are not taxed until withdrawn.

These tax provisions directly benefit only taxpayers who work for employers with qualified plans, and who work for a sufficient period of time to vest in such plans. As is the case with all exclusions, upper income taxpayers subject to tax at higher marginal tax rates receive more benefit per dollar of pension contribution than lower income taxpayers with lower marginal tax rates.

Prior to the Tax Reform Act, pension participation rose significantly with employee income. Table 2 shows that for younger workers (age 25–34), pension participation rose from 24 percent, for employees with less than $10,000 of earnings, to 71 percent for employees with over $35,000 of earnings in 1983. For older workers (age 45–64), pension participation rose from 34 percent, for employees with less than $10,000 of earnings, to 85 percent for employees with over $35,000 of earnings. Pension participation also rose with employee age, from an average of 51 percent for younger workers to an average of 63 percent for older workers in 1983.

Pension participation also varies by industry. Table 3 shows that the highest participation rate occurs among public sector employees. According to 1983 data, 81 percent of public sector employees participate in pension plans compared to 47 percent for private sector employees. Employees of regulated public utilities had a participation rate comparable to that of public sector employees. Industries with high participation rates include mining (69 percent) and manufacturing of durable goods (67 percent). Industries with low participation rates include retail (29 percent), construction (32 percent), and miscellaneous services (36 percent). Factors affecting participation rates include firm size, unionization, and job tenure.

TABLE 2.—PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY AGE AND EARNINGS, 1983

Age and earnings class (thousands of dollars)	Thousands of employees	In percent		
		Participating	Not participating	Unknown
All	73,350	54	39	6
Age 25 to 34:				
All	21,976	51	41	7
Under $10	3,878	24	63	13
$10 to $15	5,847	47	45	8
$15 to $20	4,737	60	35	5
$20 to $25	3,770	68	28	4
$25 to $35	2,770	67	29	4
Over $35	975	71	25	4
Age 45 to 64:				
All	19,162	63	30	4
Under $10	3,133	34	59	7
$10 to $15	4,423	57	38	4
$15 to $20	3,632	71	26	3
$20 to $25	3,081	80	18	2
$25 to $35	2,839	82	16	2
Over $35	2,053	85	13	2

Note: Table excludes those not reporting their earnings.

Source: Congressional Budget Office tabulation from May 1983 Current Population Survey.

TABLE 3.—PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY INDUSTRY, 1983

Industry	Thousands of employees	In percent		
		Participating	Not participating	Unknown
All	74,611	54	40	6
Public sector	13,699	81	15	4
Private sector	60,913	47	46	7
Agriculture	1,217	8	83	9
Mining	858	69	28	3
Construction	3,954	32	61	7
Manufacturing:				
Durables	10,759	67	27	6
Nondurables	7,536	59	34	7
Transportation	2,302	53	42	6
Communication and public utilities	2,363	81	16	4
Trade:				
Wholesale	3,812	47	46	7
Retail	9,352	29	63	9
Finance, insurance, and real estate	4,854	54	40	6
Miscellaneous services	13,925	36	57	8

Note: Table excludes those not reporting their industry.

Source: Congressional Budget Office tabulation from May 1983 Current Population Survey.

Because of job mobility, current participation in a pension plan does not imply that the employee will ultimately be vested in his or her employer's pension plan. Table 4 below uses a different data source than the preceding tables to measure the pension coverage, pension participation, and pension vesting of employees in 1984. Table 4 shows that a higher percentage of men participate and vest in pension plans than women.

TABLE 4.—PENSION ELIGIBILITY, 1984

[Wage and Salary Workers Aged 25 and Over]

	All workers		Male		Female	
	Number (thousands)	Percent	Number (thousands)	Percent	Number (thousands)	Percent
All wage and salary workers	78,619		43,467		35,152	
Employer has pension plan	52,727	67.1	30,351	69.8	22,376	63.7
Employee participates in pension plan	43,290	55.1	26,496	61.0	16,793	47.8
Employee vested in pension plan	35,479	45.1	21,865	50.3	13,614	38.7

Source: U.S. Bureau of the Census, Current Population Reports, Series P–70, No. 12, Pensions: Worker Coverage and Retirement Benefits, 1984, U.S. Government Printing Office, Washington, DC 1987.

Data will not be available for several years to show the effects of the Tax Reform Act on pension participation and vesting.

INDIVIDUAL RETIREMENT PLANS

Legislative history

The Employee Retirement Income Security Act of 1974 (ERISA) added section 219 of the Internal Revenue Code, providing a tax deduction for certain contributions to individual retirement arrangements (IRAs) and permitting the deferral of tax on amounts held in such arrangements until withdrawal. Active participants in employer plans were not permitted to make deductible IRA contributions.

In response to concerns that active participants in employer plans often received inadequate retirement benefits, the Economic Recovery Tax Act of 1981 (ERTA) eliminated the provision restricting IRA eligibility to individuals who were not active participants. In addition, ERTA increased the amount of the deduction.

The Tax Reform Act of 1986 amended section 219 (beginning in 1987) to provide that the full IRA deduction is not available to individuals with income above certain levels who are active participants in an employer-maintained retirement plan (or, in the case of a joint return, the spouse is an active participant). Individuals who are not entitled to the full IRA deduction may make nondeductible contributions to an IRA. Under the Technical and Miscellaneous Revenue Act of 1988, if a married couple lives together at any time during the year, the active participant status of both spouses is taken into account for purposes of calculating the IRA deduction limit.

Explanation of provision

An individual is permitted to make deductible IRA contributions up to the lesser of $2,000 ($2,250 for an individual with a nonworking spouse or a spouse who elects to be treated as a nonworking spouse) or 100 percent of compensation (earned income in the case of a self-employed individual) if (1) the individual (or a couple, if a joint return is filed) has adjusted gross income ("AGI") that does not exceed an applicable dollar amount, or (2) the individual is not an active participant in an employer plan (or, in the case of married individuals, neither the individual nor the individual's spouse is an active participant). The applicable dollar amount is (1) $35,000 in the case of an individual, (2) $50,000 in the case a married couple filing a joint return, and (3) $10,000 in the case of a married individual filing separately. A couple is not treated as married if the couple files separate returns and do not live together at any time during the year. The deduction is phased out over a $10,000 interval, so that the AGI phaseout range is (1) $25,000–$35,000 for individuals, (2) $40,000–$50,000 for married individuals filing joint returns, and (3) zero to $10,000 for married individuals filing separate returns.

Individuals are entitled to make nondeductible contributions to the extent deductible contributions are not allowed (as a result of the phaseout).

In the case of an IRA to which either deductible or nondeductible contributions have been made, the investment income of the account is not taxed until withdrawn. Amounts withdrawn from an IRA attributable to deductible IRA contributions, or earnings on deductible or nondeductible IRA contributions, are includible in income. In addition, such amounts are subject to a 10-percent additional income tax unless the withdrawal (1) is made after the IRA owner attains age 59½ or dies, (2) is made on account of the disability of the IRA owner, or (3) is one of a series of substantially equal periodic payments made not less frequently than annually over the life or life expectancy of the IRA owner (or the IRA owner and his or her beneficiary). Amounts withdrawn from an IRA that represent a return of nondeductible contributions are treated as a return of basis and, therefore, are not includible in income or subject to the 10-percent additional tax.

Effect of provision

The expansion of IRA eligibility following ERTA significantly expanded the use of IRAs. In 1981, 4.1 percent of taxpayers with wage and salary income made IRA contributions. In 1982, the percentage making IRA contributions was 14.5 percent, and by 1985, this figure had grown to 17.8 percent.[6]

As is the case with all exclusions, upper income taxpayers with high marginal tax rates receive more benefit per dollar of IRA contribution than lower income taxpayers with low marginal tax rates. In addition, table 5 documents that the percentage of participation prior to the Tax Reform Act was greatest among upper income taxpayers. Upper income taxpayers made larger contributions as well. Taxpayers with adjusted gross incomes in excess of $50,000 constituted approximately 29 percent of all IRA contributors, but accounted for more than 35 percent of 1985 IRA contributions.

TABLE 5.—IRA PARTICIPATION BY INCOME CLASS, 1985

Adjusted gross income class	Returns reporting IRA contributions		
	Number in millions	Percent of eligible returns	Contributions (billions of dollars)
All classes	16.2	17.8	38.2
Under $10,000	.6	2.3	1.1
$10,000 to $30,000	5.1	13.6	9.7
$30,000 to $50,000	5.7	32.9	13.5
$50,000 to $75,000	3.0	56.5	8.7
$75,000 to $100,000	.9	74.1	2.7
Over $100,000	.8	76.1	2.6

Note: Self-employed persons as well as wage and salary employees can contribute to IRA's.

Source: 1985 Statistics of Income.

Congress created the IRA to permit those workers not covered by private pension plans to have access to a form of tax-deferred retirement saving, and thereby to build retirement income. Table 6 indicates that despite the existence of IRAs, a substantial number of employees did not participate in a pension plan or an IRA in 1983.

Table 6 shows that, in 1983, many employees with IRAs also participated in their employer's retirement plan. More recent data to reflect changes in pension plan coverage requirements made by the Tax Reform Act of 1986 are not available.

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[6] U.S. Dept. of the Treasury, *Statistics of Income*, as reported in CBO, *Tax Policy for Pensions and Other Retirement Saving* (April 1987), and U.S. Dept. of the Treasury, unpublished Statistics of Income data for 1985.

While the data reveal that many taxpayers have established IRAs, some believe that IRAs merely represent funds which taxpayers would have saved in the absence of the tax deduction.[7] Other argue that funds flowing into IRAs represent moneys which would not otherwise have been saved.[8]

TABLE 6.—PENSION AND IRA PARTICIPATION BY AGE FOR FULL-TIME EMPLOYEES, 1983

Full-time	Employees (millions)	Having pension [1] only (percent)	IRA only (percent)	Having both (percent)	Having neither (percent)	Unknown (percent)
All employees	74.6	40	5	12	34	7
Ages 25 to 34	22.0	45	4	6	36	7
Ages 45 to 64	19.2	40	9	23	21	4

[1] In this table "pension" does not include social security and the employee need not be vested in the pension plan to count as being covered by a pension.

Source: Congressional Budget Office tabulation from May 1983 Current Population Survey of the Bureau of the Census.

EXCLUSION OF SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS

Legislative history

Social Security benefits.—The exclusion from gross income for Social Security benefits was not initially established by statute. Prior to the Social Security Amendments of 1983, the exclusion was based on a series of administrative rulings issued by the Internal Revenue Service in 1938 and 1941 (see I.T. 3194, 1938-1 C.B. 114, I.T. 3229, 1938-2 C.B. 136, and I.T. 3447, 1941-1 C.B. 191).

A Supreme Court decision in 1937 in which Social Security benefits were characterized as "general welfare" may have been influential in resolving the issue.[9] I.T. 3194 and I.T. 3229 made lump-sum distributions nontaxable; internal IRS memoranda suggested that the payments were considered in the nature of a gift. The reasons underlying I.T. 3447 appear to include the following theories: (1) the benefits are gratuities and, thus, not subject to income tax because gifts are not taxable as income; (2) the Congress indicated its intent that the benefits not be taxable because it did not specifically make them taxable; and (3) the benefits are in the nature of public assistance for the general welfare and the Congress did not intend to tax with one hand what it pays out with the other.

Under the Social Security Amendments of 1983, a portion of the social security benefits paid to higher income taxpayers is included in gross income. In modifying the tax treatment of Social Security benefits in 1983, the Congress stated that Social Security benefits are in the nature of benefits received under other retirement systems, which are subject to taxation to the extent they exceed a worker's nondeductible contributions. The legislative history further indicated that taxing a portion of Social Security benefits improves tax equity by treating more equally all forms of retirement and other income that are designed to replace wages. The tax treatment of Social Security benefits is contained in section 86 of the Internal Revenue Code of 1986.

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[7] Galper, Harvey and Charles Bryce, "Individual Retirement Accounts: Facts and Issues," *Tax Notes*, vol. 31, June 2, 1986, pp. 917-21.

[8] Venti, Steven F. and David A. Wise, "The Evidence on IRAs," *Tax Notes*, vol. 38, January 25, 1988, pp. 411-16.

[9] *Helvering* v. *Davis*, 301 U.S. 619, 640 (1937).

Railroad retirement benefits.—The exclusion from gross income of benefits paid under the railroad retirement system was enacted in the Railroad Retirement Act of 1935. The rationale for the exclusion was not separately stated, but is presumed to be similar to that for excluding Social Security benefits from gross income.

A portion of the benefits payable under the railroad retirement system (generally, tier 1 benefits) is equivalent to Social Security benefits. The tax treatment of tier 1 railroad retirement benefits was modified in the Social Security Amendments of 1983 to conform generally to the tax treatment of Social Security benefits. Other railroad retirement benefits are taxable in the same manner as employer-provided retirement benefits. The Consolidated Omnibus Budget Reconciliation Act of 1985 provided that tier 1 benefits are taxable in the same manner as social security benefits only to the extent that Social Security benefits otherwise would be payable. Other tier 1 benefits are taxable in the same manner as all other railroad retirement benefits.

Explanation of provision

Under section 86 of the Internal Revenue Code, a portion of social security and tier 1 railroad retirement benefits is included in taxable income for taxpayers whose adjusted gross income ("AGI"), combined with (1) interest on tax-exempt bonds and (2) 50 percent of social security and tier 1 railroad retirement benefits, exceeds a base amount. The base amount is $25,000 for unmarried individuals and married individuals who file a separate return and who live apart at all times during the taxable year, $32,000 for married couples filing joint returns, and zero for married persons filing separate returns who do not live apart at all times during the taxable year. The amount of benefits includible in income is the lesser of (1) 50 percent of the Social Security and tier 1 railroad retirement benefits, or (2) 50 percent of the excess of the taxpayer's combined income over the base amount.

The portion of tier 1 railroad retirement benefits potentially includible in taxable income under the above formula is the amount of benefits the taxpayer would have received if covered under social security. Pursuant to section 72(r) of the Internal Revenue Code of 1986, all other benefits payable under the railroad retirement system are includible in income when received to the extent they exceed employee contributions.

Effect of provision

A large percentage of any current social security recipient's benefit does not constitute a return of the recipient's contributions (which were originally made with after-tax dollars). For example, the Social Security Administration has estimated that, for individuals retiring between the years 2025 and 2030, the lifetime employee after-tax contributions will equal approximately 7 percent of their aggregate benefits.[10]

Table 7 below estimates the distribution of tax expenditures which arise from the exclusion of Social Security benefits in excess of the retiree's after-tax contribution. The table shows that the tax expenditure per return increases as the income class rises up to the $30,000 to $50,000 income class, at which point it declines slightly (except for those with incomes above $200,000). However, the tax expenditure per return is always greater for those with incomes above $20,000 than for those with incomes below $20,000. This outcome may be explained by the likelihood that higher income retirees were generally higher income individuals during their working years who were more likely to be employed in jobs covered by Social Security and more likely to be eligible for the maximum benefit. The tendency for the tax expenditure per return to rise with income would be greater in the absence of the partial inclusion of benefits made by the Social Security Amendments of 1983, which subjected a portion of Social Security benefits to taxation for those single taxpayers with income greater than $25,000 and for those married taxpayers with income greater than $32,000.

TABLE 7.—DISTRIBUTION OF TAX EXPENDITURE: UNTAXED SOCIAL SECURITY BENEFITS, 1990

Income class (thousands)	Returns (thousands)	Amount (millions)
Below $5	(1)	(2)
$5 to $10	3,509	$781
$10 to $15	3,439	2,108
$15 to $20	3,091	2,738
$20 to $30	5,028	5,971
$30 to $50	5,538	6,753
$50 to $75	1,798	1,619
$75 to $200	1,023	1,131
$200 and over	168	287
Total	23,594	21,389

[1] Less than 500.
[2] Less than $500,000.

EXCLUSION OF EMPLOYER CONTRIBUTIONS FOR MEDICAL INSURANCE PREMIUMS AND MEDICAL CARE

Legislative history

In 1943, the Internal Revenue Service (IRS) ruled that employer contributions to group health insurance policies were not taxable to the employee. Employer contributions to individual health insurance policies, however, were declared to be taxable income in an IRS revenue ruling in 1953.

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[10] CBO, "An Analysis of Alternatives for Taxing Social Security as a Private Pension," Staff Working Paper, March 1988.

Section 106 of the Internal Revenue Code, enacted in 1954, reversed the 1953 IRS ruling. As a result, employer contributions to all accident or health plans generally are excluded from taxable income. The legislative history of section 106 indicates that its purpose is to make uniform the tax treatment of employer contributions to group and individual health plans. In addition, under section 105 of the Internal Revenue Code, benefits received under an employer's accident or health plan generally are not included in the employee's income.

In the Revenue Act of 1978, Congress added section 105(h) to tax the benefits payable to highly compensated employees under a self-insured medical reimbursement plan if the plan discriminated in favor of the highly compensated employees. The Tax Reform Act of 1986 modified the health provisions by repealing section 105(h), amending section 106 to exclude employer-provided coverage (rather than contributions) under an accident or health plan, and providing that the exclusion under section 106 does not apply to highly compensated employees under an employer-provided health plan (whether or not self insured) unless the plan does not discriminate in favor of the employer's highly compensated employees (sec. 89). In enacting these limitations on the exclusion for employer-provided health coverage, Congress stated its intent that the exclusion should not be available if a health plan favors the highly compensated employees of an employer.

Explanation of provision

Under section 106 of the Internal Revenue Code of 1986, gross income of an employee generally does not include employer-provided coverage under an accident or health plan.

The exclusion under section 106 for employer-provided health coverage generally applies to coverage provided to former employees, their spouses, or dependents.

Section 105 of the Code provides that gross income does not include amounts received by an employee for personal injuries or sickness if the amounts are paid directly or indirectly to reimburse the employee for expenses incurred for medical care.

Section 89 of the Code provides that, in the case of a discriminatory employee benefit plan (including an accident or health plan), a highly compensated employee is required to include in income the value of the discriminatory portion of the employee's employer-provided benefit. The employee's employer-provided benefit generally is the value of the coverage provided to an employee under an accident or health plan, rather than the amount of benefits actually paid directly or indirectly to the employee for medical care. In addition, section 89 requires that a health plan satisfy certain qualification requirements (sec. 89(k)). These qualification requirements include the requirement that an accident or health plan be in writing, that employees be given resonable notice of the terms of the plan, and that employees' rights under the plan be legally enforceable. The failure to satisfy the qualification rules may result in an employee being taxed on the value of benefits received under the plan.

Present law permits employers to prefund medical benefits for retirees. Post-retirement medical benefits may be prefunded by the employer in two basic ways: (1) through a separate account in a tax-qualified pension plan (sec. 401(h)); or (2) through a welfare benefit fund (secs. 419 and 419A). Generally, amounts contributed to section 401(h) accounts or to welfare benefit funds are not includible in the income of the plan or participants. Although amounts held in a section 401(h) account are accorded tax-favored treatment similar to assets held in a pension trust, the benefits provided under a section 401(h) account are required to be incidental to the retirement benefits provided by the plan. A welfare benefit fund also may be used to fund post-retirement medical benefits. Amounts contributed to these funds are subject to certain deduction limitations (secs. 419, 419A). Additionally, the fund is subject to income tax relating to any set aside to provide post-retirement medical benefits.

Effect of provision

Historically, the tax law has included incentives for employers to provide certain benefits to their employees, such as health coverage. Nondiscrimination requirements have been imposed to assure that such programs benefit, in addition to highly compensated employees, significant numbers of lower paid employees.

The exclusion for employer-provided health coverage provides an incentive for compensation to be furnished in the form of health coverage, rather than in cash subject to current taxation. As is the case with any deduction or exclusion, employees subject to tax at the highest marginal tax rate have a greater incentive to receive compensation in a form other than currently taxable amounts.

Table 8 presents data summarizing the growth over four decades of employer contributions to group health plans.[11] Contributions to group health plans, second only to qualified pension plans in dollar amount, more than doubled in the five year period 1980–1985, and reached $115.3 billion in 1987.

Table 8 also shows the rate at which group health benefits have grown compared to total wages and salaries. Group health benefits grew from 0.8 percent of wages in 1955 to 5.1 percent of wages in 1987.

TABLE 8.—EMPLOYER CONTRIBUTIONS FOR GROUP HEALTH INSURANCE, 1955–87

[Dollar amounts in billions]

	1955	1960	1965	1970	1975	1980	1985	1987
Amount [1]	$1.7	$3.4	$5.9	$12.1	$24.0	$49.8	$100.8	$115.3
Percent of wages	.8	1.2	1.6	2.2	3.0	3.7	5.1	5.1

[1] Amounts are based on Department of Commerce reported data and include employer contributions for short- and long-term disability insurance covering private employees and their dependents.

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[11] The data includes employer contributions for disability insurance which accounts for roughly 10 percent of total contributions.

Table 9 compares the increase in wages to the increase in health benefits during the 1950–1986 period. Between 1950 and 1955, health benefit contributions increased 1.5 cents for ever dollar increase in aggregate wages. During the 1970's, health benefit contributions increased approximately 4.7 cents for each dollar increase in wages. Over the 1980 to 1985 period, health benefit contributions accelerated to 8.4 cents for each dollar of wage growth, while slowing down in the 1985 to 1987 period to a 5.3 cent increase for each dollar of wage growth.

TABLE 9.—INCREASE IN EMPLOYER GROUP HEALTH INSURANCE CONTRIBUTIONS PER DOLLAR OF WAGE INCREASE, 1950–87

	Cents
Years:	
1950–55	1.5
1955–60	2.8
1960–65	2.8
1965–70	3.3
1970–75	4.6
1975–80	4.7
1980–85	8.4
1985–87	5.3

Source: Computed from U.S. Department of Commerce data.

HEALTH CARE CONTINUATION RULES

Legislative history

The Consoldiated Omnibus Budget Reconciliation Act of 1985 (COBRA) added sections 106(b), 162(i)(2), and 162(k) to the Internal Revenue Code under which certain group health plans are required to offer health coverage to certain former employees, as well as spouses and dependents of certain employees or former employees. Parallel requirements were added to title I of the Employee Retirement Income Security Act of 1974 and the Public Health Services Act. Under COBRA, in the case of a failure to satisfy the health care continuation rules, the employer was denied a deduction for contributions to its group health plans and highly compensated employees were required to include in income the employer-provided value of the coverage received under such plans. Technical amendments were made to these health care continuation requirements in the Tax Reform Act of 1986.

The Technical and Miscellaneous Revenue Act of 1988 made several changes to the health care continuation rules by amending sections 106 and 162. Sections 106(b), 162(i)(2) and 162(k) were repealed and replaced by section 4980B, which contains the health care continuation rules. In the case of a failure to satisfy the health care continuation requirements, section 4980B imposes an excise tax on the employer or other responsible party in lieu of the loss of deductibility formerly found in section 162(i)(2) and the loss of the health coverage exclusion formerly found in section 106(b).

Explanation of provision

Certain employer-provided accident or health plans are required to satisfy health care continuation rules (sec. 4980B). In general these rules require that an employer provide qualified beneficiaries with the opportunity to participate for a specified period in the employer's health plan after the occurrence of a qualifying event that otherwise would have terminated such participation.

The qualifying events that may trigger rights to continuation coverage are (1) the death of the employee; (2) the voluntary or involuntary termination of the employee's employment (other than by reason of gross misconduct); (3) a reduction of the employee's hours; (4) the divorce or legal separation of the employee; (5) the employee becoming entitled to benefits under Medicare; and (6) a dependent child of the employee ceasing to be a dependent under the employer's plan. The maximum period of continuation coverage that may be elected is 36 months, except in the case of termination of employment or reduction of hours for which the maximum period is 18 months. However, certain events, such as the failure by the qualified beneficiary to pay the required premium may trigger an earlier cessation of the continuation coverage.

A qualified beneficiary has a prescribed period of time after a qualifying event in which to elect continuation coverage. Such period does not commence until the employee receives notice from the plan administrator of the right to continuation coverage.

If a plan subject to the health care continuation rules fails to satisfy the rules, an excise tax is imposed on the employer. In certain circumstances, persons other than the employer may be liable for the excise tax.

EXCLUSION OF MEDICARE BENEFITS

Legislative history

The exclusion from income of Medicare benefits has never been expressly established by statute. A 1970 IRS ruling, Rev. Rul. 70–341, 1970–2 C.B. 31, provided that the benefits under Part A of Medicare are not includible in gross income because they are in the nature of disbursements made in furtherance of the social welfare objectives of the Federal Government. The Internal Revenue Service relied on a similar ruling, Rev. Rul. 70–217, 1970–1 C.B. 13, with respect to the excludability of old age and survivors insurance benefits and disability insurance benefits (OASDI) in reaching this conclusion. (For background on the exclusion of OASDI benefits, see above.)

Rev. Rul. 70–341 also held that benefits under Part B of Medicare are excludable under Code section 104 as amounts received through accident and health insurance (though the subsidized portion of Part B also may be excluded under the same theory applicable to the exclusion of Part A benefits).

Explanation of provision

Benefits under Part A and Part B of Medicare are excludable from the gross income of the recipient. In general, Part A pays for certain in-patient hospital care, skilled nursing facility care, home health care, and hospice care for eligible individuals (generally the elderly and the disabled). Part B covers certain doctor's services and other medical services for elderly or disabled individuals who elect to pay the required premium.

DEDUCTIBILITY OF MEDICAL EXPENSES

Legislative history

An itemized deduction for unreimbursed medical expenses above a specified floor has been allowed since 1942. From 1954 through 1982, the floor under the medical expense deduction was 3 percent of the taxpayer's adjusted gross income ("AGI"); a separate floor of 1 percent of AGI applied to expenditures for medicine and drugs.

In the Tax Equity and Fiscal Responsibility Act of 1982, the overall floor was increased to 5 percent of AGI, and was applied to the total of all eligible medical expenses, including prescription drugs and insulin. The 1982 Act made nonprescription drugs ineligible for the deduction, and eliminated the separate floor for drug costs.

The Tax Reform Act of 1986 increased the floor under the medical expense deduction to 7.5 percent of AGI, beginning in 1987.

Explanation of provision

Individuals who itemize deductions may deduct amounts paid during the taxable year, if not reimbursed by insurance or otherwise, for medical care of the taxpayer and of the taxpayer's spouse and dependents, to the extent that the total of such expenses exceeds 7.5 percent of AGI (sec. 213).

Medical care expenses eligible for the deduction include amounts paid by the taxpayer for (1) health insurance (including after-tax employee contributions to employer health plans and Medicare premiums, other than the supplemental premium for catastrophic coverage); (2) diagnosis, treatment, or prevention of disease or malfunction of the body; (3) transportation primarily for and essential to medical care; and (4) lodging away from home primarily for and essential to medical care, up to $50 per night. The costs of prescription drugs and insulin also are eligible for the medical care expense deduction.

Expenses paid for the general improvement of health, such as fees for exercise or weight-reduction programs, are not eligible for the deduction unless prescribed by a physician to treat a specific illness or physical defect.

Effect of provision

Under general tax principles, personal expenses such as medical expenses are not deductible from gross income. However, the code allows taxpayers to claim an itemized deduction if unreimbursed medical expenses absorb a substantial portion of income and, thus, adversely affect the taxpayer's ability to pay taxes. In order to limit the deduction to extraordinary medical expenses, (e.g., uninsured surgery) the tax law provides that medical expenses are deductible only to the extent that they exceed a specified percentage (now 7.5 percent) of the taxpayer's AGI.

The deduction is not limited to expenses of specifically defined diseases or to types of expenditures deemed to be involuntary. Thus, voluntary medical expenses, e.g., some types of cosmetic surgery, may be eligible for the deduction.

In 1990, it is estimated that, of the tax returns on which the deduction is claimed, 36 percent represent taxpayers below the $30,000 income class. As table 10 shows, these returns (below the $30,000 income class) will obtain 21 percent of the tax benefits provided by the medical expense deduction.

TABLE 10.—DISTRIBUTION OF TAX EXPENDITURE: MEDICAL DEDUCTION, 1990

Income class (thousands)	Returns (thousands)	Amount (millions)	Average
$0 to $5	5	0	$28
$5 to $10	72	$14	190
$10 to $15	237	41	173
$15 to $20	566	188	332
$20 to $30	1,271	354	278
$30 to $50	2,627	1,038	395
$50 to $75	845	474	561
$75 to $200	317	616	1,944
$200 and over	20	149	7,485
Total	5,959	2,873	482

EARNED INCOME TAX CREDIT

Legislative history

The earned income tax credit (Code sec. 32) was enacted in 1975 as a means of targeting tax relief to working low-income taxpayers with children, providing relief from the Social Security payroll tax for these taxpayers, and improving incentives to work.

As originally enacted, the credit equalled 10 percent of the first $4,000 of earned income (i.e., a maximum credit of $400). The credit began to be phased out for adjusted gross income (AGI) (or, if greater, earned income) above $4,000, and was entirely phased out for taxpayers with AGI of $8,000. For 1979 through 1984, the maximum credit was increased to $500 (10 percent of the first $5,000 of earned income). Also, the income level at which the phaseout began was raised to $6,000, with a complete phaseout not occurring until an income level of $10,000. For 1985 and 1986, the maximum credit was increased to $550 (11 percent of the first $5,000 of earned income) and the credit was phased out beginning at $6,000 of income and ending at $11,000. Prior to 1987, the dollar amount of the earned income credit was not indexed for inflation.

Under the Tax Reform Act of 1986, the maximum credit was increased to $800 (14 percent of the first $5,714 of earned income), beginning in 1987. The maximum credit is reduced by 10 cents for each dollar of AGI (or, if greater, earned income) in excess of $9,000 ($6,500 in 1987). These amounts are before adjustment for inflation (see discussion below).

TABLE 11.—EARNED INCOME CREDIT PARAMETERS, 1976–1990

Calendar year	Credit rate (percent)	Minimum income for maximum credit	Maximum credit	Phase-out rate (percent)	Phase-out range	
					Beginning income	Ending income
1976	10	$4,000	$400	10.00	$4,000	$8,000
1977	10	4,000	400	10.00	4,000	8,000
1978	10	4,000	400	10.00	4,000	8,000
1979	10	5,000	500	12.50	6,000	10,000
1980	10	5,000	500	12.50	6,000	10,000
1981	10	5,000	500	12.50	6,000	10,000
1982	10	5,000	500	12.50	6,000	10,000
1983	10	5,000	500	12.50	6,000	10,000
1984	10	5,000	500	12.50	6,000	10,000
1985	11	5,000	550	12.22	6,500	11,000
1986	11	5,000	550	12.22	6,500	11,000
1987	14	6,080	851	10.00	6,920	15,423
1988	14	6,250	874	10.00	9,840	18,576
1989	14	6,500	910	10.00	10,240	19,340
1990 [1]	14	6,810	953	10.00	10,740	20,270

[1] Projection.

Source: Joint Committee on Taxation.

Explanation of provision

Eligibility.—The earned income credit is available to married individuals filing joint returns who are entitled to a dependency exemption for a child; surviving spouses (who, by definition, must maintain a household for a dependent child); and unmarried heads of households who maintain a household for a child. A dependency exemption generally is available only if the taxpayer provides more than half the total support of the child, and a taxpayer is considered to maintain a household only if more than half the household expenses are furnished by that individual. For this purpose, benefits under the AFDC program (Aid to Families with Dependent Children) are not considered as support provided or furnished by the taxpayer. Thus, if more than half of an individual's or couple's income is from AFDC or another source other than their own income or resources, the earned income credit generally is not available.

Benefits.—Beginning in 1987, the credit equals 14 percent of the first $5,714 of earnings, including net earnings from self-employment plus an adjustment for inflation ($6,244 after inflation adjustment in 1988).[12] The size of the credit is unrelated to the number of dependents (in excess of one). For each dollar of adjusted gross income (or, if higher, earned income) above 9,850 after inflation adjustment in 1988), the maximum credit ($874 in 1988) is reduced by 10 cents. The income phaseout is complete at $18,575 in 1988.

Unlike most tax credits, the earned income credit is refundable; i.e., if the amount of the credit exceeds the taxpayer's Federal income tax liability, the excess is payable to the taxpayer. Also, under an advance payment system, eligible taxpayers may elect to receive the benefit of the credit in their paychecks, rather than waiting to claim a refund on their return filed by April 15 of the following year. Where the individual does not claim the credit, but the IRS can determine from the return that the individual is eligible, the credit calculation is done for the individual. This determination is made after review of the individuals income, filing status and dependency exemptions.

Interaction with AFDC and food stamps.—The treatment of the earned income tax credit for purposes of AFDC and food stamp benefit computations has varied since inception of the credit. When enacted in 1975, the credit was not considered income in determining AFDC and food stamp benefits, and the credit could not be received on an advance basis. From January 1979 through September 1981, the credit was treated as earned income when actually received. Receipt of the credit on an advance basis was authorized in July 1979.

From October 1981 to September 1984, the amount of the credit was treated as earned income and was imputed to the family even though it may not have been received as an advance payment. Pursuant to the Deficit Reduction Act of 1984, the credit is treated as earned income only when it is received, either as an advance payment or as a refund after conclusion of the year.

Under Federal rules, a State generally has the option of treating a tax refund as either unearned income in the month of receipt, or as a resource. However, the amount of earned income credit embodied within a tax refund is treated as earned income in the month the refund is received. If the refund is treated as unearned income, it reduces the amount of the AFDC benefit on a dollar-for-dollar basis.

Food stamp rules do not have a similar requirement. In determining the food stamp benefit, the credit is counted as earned income for the month of receipt, if received on an advance basis, or as an asset, if received in a lump sum at the end of the year.

Effect of provision

For calendar year 1987, it is estimated that earned income tax credits totaled $3.3 billion, of which about $2.9 billion represented Treasury payments in excess of current year tax liability and $0.4 billion was offset against the individual's tax liability (see table 12). Some 7.4 million families received the credit, which averaged $443 per family. Of total recipients, over 4.5 million received a portion of the earned income tax credit in the form of a Treasury payment (rather than a reduction in tax liability). Only approximately 10,000 families received advance payments, totaling about $2.2 million in 1986. In calendar year 1986 over 560,000 returns which did not claim the credit were allowed the credit after determination by the IRS of eligibility.

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[12] Under the Tax Reform Act of 1986, the income base eligible for the credit and the phaseout starting point are adjusted for inflation occuring after August 31, 1984. Thus, for example, the maximum amount of earned income eligible for the credit beginning in 1988 equals $5,714 as adjusted for inflation between August 31, 1984 and August 31, 1987. Any inflation adjustment relating to the credit that is not a multiple of $10 is rounded to the nearest multiple of $10.

Table 12 shows the total amount of earned income credits received for each of the calendar years since the inception of the program, the number of recipient families, the amount of the credits received as Treasury payments, and the average amount of the credit received per family.

TABLE 12.—TOTAL AMOUNT OF EARNED INCOME CREDIT, NUMBER OF FAMILIES RECEIVING CREDIT, AND BUDGET OUTLAYS, 1975–90

Calendar year to which credit applies	Total amount of credit (millions)	Number of families who received credit (thousands)	"Refunded" portion of credit [1] (millions)	Average credit per family
1975	$1,250	6,215	$900	$201
1976	1,295	6,473	890	200
1977	1,127	5,627	880	200
1978	1,048	5,192	801	202
1979	2,052	7,135	1,395	288
1980	1,986	6,954	1,370	286
1981	1,912	6,717	1,278	285
1982	1,775	6,395	1,222	278
1983	1,786	6,250	1,287	286
1984	1,636	6,376	1,162	257
1985	2,096	6,515	1,506	322
1986 [2]	2,016	6,287	1,488	321
1987 [2]	3,298	7,437	2,947	443
1988 [3]	4,927	9,247	4,078	533
1989 [3]	5,425	9,823	4,472	552
1990 [3]	5,937	10,441	4,786	569

[1] This is the portion of the credit that exceeds tax liability, and it is treated as a budget outlay. The rest of the credit is classified as a "tax expenditure." All these credits were paid in the following year until 1979, when advance payments of the credit were permitted by addition to the worker's paycheck.

[2] Preliminary.

[3] Projection.

The income limitations for the earned income credit are indexed for inflation. Table 13 shows the amount of credit available at various income levels in 1987 and 1988, and projections for 1989 and 1990 based on Congressional Budget Office estimates of inflation.

TABLE 13.—EARNED INCOME CREDIT SCHEDULE, 1987–90

Adjusted gross income [1]	Earned income credit			
	1987	1988	1989	1990 [2]
$1,000	$142	$142	$142	$142
2,000	282	282	282	282
3,000	422	422	422	422
4,000	562	562	562	562
5,000	702	702	702	702
6,000	842	842	842	842
6,080	[3] 851	853	853	853
6,250	851	[3] 875	877	877
6,520	851	875	[3] 913	913
6,810	851	875	913	[3] 953
7,000	842	875	913	953
8,000	742	875	913	953
9,000	642	875	913	953
10,000	542	858	913	953
11,000	442	758	839	926
12,000	342	658	739	826
13,000	242	558	639	726
14,000	142	458	539	626
15,000	42	358	439	526
15,432	[4] 0	315	395	484
16,000	0	258	339	426
17,000	0	158	239	326
18,000	0	58	139	226
18,590	0	[4] 0	80	169
19,000	0	0	39	126
19,398	0	0	[4] 0	89
20,000	0	0	0	26
20,274	0	0	0	[4] 0
21,000	0	0	0	0

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[1] Adjusted gross income is assumed equal to earned income (i.e., wages, salaries, tips, nontaxable compensation, and self-employment income).

[2] Estimated based on the consumer price index forecast of the Congressional Budget Office.

[3] Maximum earned income credit.

[4] Earned income credit fully phased out.

The distribution of tax expenditures for the earned income credit (EIC) as estimated for 1990 taxpayers is shown in table 14 for all tax returns and joint returns and head of household returns. Tax returns reflecting use of the EIC are fairly evenly divided between head of household returns (48 percent) and joint returns (52 percent). Less than half (48 percent) of all EIC recipients have income below $15,000, but they receive 66 percent of the amount credited. Two-thirds of the taxpayers in this grouping file head of household returns. Above $15,000, there are more joint returns receiving EIC than head of household returns. Less than 2 percent of EIC returns reflect income above $30,000.

TABLE 14.—DISTRIBUTION OF TAX EXPENDITURE: EARNED INCOME CREDIT, 1990

Income class (thousands)	Returns (thousands)	Amount (millions)
Joint returns		
$0 to $5	124	$53
$5 to $10	463	369
$10 to $15	1,123	887
$15 to $20	1,878	854
$20 to $30	1,669	463
$30 to $50	139	51
$50 to $75	14	1
$75 to $200	0	0
$200 and over	0	0
Total	5,409	2,678
Head of household returns		
$0 to $5	320	134
$5 to $10	1,211	910
$10 to $15	1,770	1,447
$15 to $20	1,258	617
$20 to $30	449	130
$30 to $50	22	14
$50 to $75	0	0
$75 to $200	0	0
$200 and over	0	0
Total	5,031	3,252
All returns		
$0 to $5	444	188
$5 to $10	1,675	1,279
$10 to $15	2,893	2,334
$15 to $20	3,136	1,471
$20 to $30	2,117	593
$30 to $50	161	66
$50 to $75	14	1
$75 to $200	0	0
$200 and over	0	0
Total	10,441	5,932

EXCLUSION OF PUBLIC ASSISTANCE AND SSI BENEFITS

Legislative history

While there is no specific statutory authorization, a number of revenue rulings under Code section 61 have held specific types of public assistance payments are excludable from gross income. Revenue rulings generally exclude Government transfer payments from income because they are considered to be general welfare payments. While no specific rationale has been advanced for this exclusion, the reasoning may be similar to that for the original exclusion of Social Security payments—that they are in the nature of gifts and that the Congress did not intend to tax with one hand what it pays out with the other. Also, taxing benefits provided in kind, rather than in cash (e.g., Medicaid), would require valuation of these benefits, which would create administrative difficulties.

Explanation of provision

The Federal Government provides public assistance benefits tax free to individuals either in the form of cash payments or by providing certain goods and services free of charge. Cash payments come mainly from the Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) programs. In-kind payments include food stamps, Medicaid, and housing assistance.

DEPENDENT CARE CREDIT

Legislative history

Under section 21 of the Internal Revenue Code, a tax credit is allowed with respect to certain employment-related expenses for dependent care. The origin of the credit was a provision enacted in section 214 of the Internal Revenue Code of 1954, providing a deduction to gainfully employed women, widowers, and legally separated or divorced men for certain employment-related dependent care expenses. The deduction was limited to $600 per year and phased out for families with income between $4,500 and $5,100. The intent of the provision was to recognize that, while having personal consumption characteristics, certain dependent care expenses are sufficiently similar to employee business expenses to justify a limited tax benefit.

The Revenue Act of 1964 made husbands with incapacitated wives eligible for the dependent care deduction and raised the threshold for the income phaseout from $4,500 to $6,000.

The Revenue Act of 1971 made any individual maintaining a household eligible for the deduction (subject to a gainful employment requirement). The 1971 Act also (1) modified the definition of a dependent, (2) raised the deduction limit to $4,800 per year, (3) increased from $6,000 to $18,000 the income level at which the deduction began to be phased out, (4) allowed the deduction for household services in addition to direct dependent care, and (5) limited the deduction with respect to services outside the taxpayer's household. The 1971 amendment was intended to encourage the hiring of domestic workers, encourage the care of incapacitated persons at home rather than in institutions, and provide relief to middle- and low-income taxpayers.

The Tax Reduction Act of 1975 increased from $18,000 to $35,000 the income level at which the deduction began to be phased out.

The Tax Reform Act of 1976 replaced the deduction with a nonrefundable credit. Congress believed that (1) the benefits of this provision should not be limited to taxpayers who itemize deductions, (2) a tax credit would provide relatively more benefit than a deduction to taxpayers in the lower tax brackets, (3) the prior rules governing married couples, divorced and separated persons, and payments to relatives were unduly restrictive, and (4) computation of the deduction was too complex.

The Revenue Act of 1978 further modified the rules relating to whether payments to relatives qualify as creditable expenses. In the Economic Recovery Tax Act of 1981, Congress provided (1) a higher ceiling on creditable expenses, (2) a larger credit for lower income individuals, and (3) modified rules relating to care provided outside the home.

In the Omnibus Budget Reconciliation Act of 1987, the credit was amended to make expenses incurred for an overnight camp ineligible for the credit.

The Family Support Act of 1988 made several alterations to the operation of the credit. A child must be under the age of 13 (rather than 15) to be treated as an individual for whom the dependent care credit may be claimed. The amount of expenses eligible for the dependent care credit is reduced, dollar for dollar, by the amount of expenses excludable from that taxpayer's income under the dependent care exclusion. Finally, the dependent care credit may not be claimed unless the taxpayer reports on his or her tax return the correct name, address and taxpayer identification number (TIN) of the dependent care provider. These provisions are effective for taxable years beginning after December 31, 1988.

Explanation of provision

A nonrefundable credit against income tax liability is available for up to 30 percent of a limited amount of employment-related dependent care expenses. Eligible employment-related expenses are limited to $2,400, if there is one qualifying individual, and $4,800, if there are two or more qualifying individuals. The credit may be claimed by an individual who maintains a household that includes one or more qualifying individuals. Generally, a qualifying individual is a dependent under the age of 13, a physically or mentally incapacitated dependent, or a physically or mentally incapacitated spouse.

Employment-related dependent care expenses are expenses for the care of a qualifying individual incurred to enable the taxpayer to be gainfully employed, other than expenses incurred for an overnight camp. For example, amounts paid for the services of a housekeeper generally qualify if such services are performed at least partly for the benefit of a qualifying individual; amounts paid for a chauffeur or gardener do not qualify.

The amount of employment-related expenses that may be taken into account in computing the credit generally may not exceed an individual's earned income or, in the case of married taxpayers, the earned income of the spouse with the lesser earnings. (This limitation does not apply in the case of a spouse who is a full-time student or who is incapable of caring for himself or herself.) Thus, if one spouse is not working, no credit generally is allowed. Also, the amount of expenses eligible for the dependent care credit is reduced, dollar for dollar, by the amount of expenses excludable from that taxpayer's income under the dependent care exclusion.

The 30-percent credit rate is reduced, but not below 20 percent, by one percentage point of each $2,000 (or fraction thereof) of adjusted gross income (AGI) above $10,000. Because married couples are required to file a joint return to claim the credit, a married couple's combined AGI is used for purposes of this computation.

Effect of provision

From 1976 to 1986, utilization of the dependent care credit increased from 2.7 to 9.0 million families, the amount of credits claimed increased from $0.5 billion to $3.4 billion, and the average amount of credit claimed per family increased from $206 to $380 (see table 15).

TABLE 15.—DEPENDENT CARE CREDIT, 1976–90

Calendar year	Returns claiming dependent credit (thousands)	Amount of credit claimed (millions of dollars)	Average credit per return (dollars)
1976	2,660	548	206
1977	2,910	521	179
1978	3,431	654	191
1979	3,833	793	207
1980	4,231	956	226
1981	4,578	1,148	251
1982	5,004	1,501	300
1983	6,367	2,051	322
1984	7,546	2,649	351
1985	8,417	3,127	372
1986 [1]	8,950	3,399	380
1987 [2]	8.528	3,449	404
1988 [2]	8,201	3,419	417
1989 [2]	8,495	3,685	434
1990 [2]	8,767	3,953	451

[1] Preliminary.
[2] Projection.

The bulk of the dependent care credit is claimed by families filing joint returns. In 1986, approximately 65 percent of the dependent care credit was claimed on joint returns and 34 percent on head of household returns (see table 16). (A negligible amount of dependent care credit is claimed on single returns by custodial parents who are not eligible to claim dependent exemptions.)

In 1986, 11 percent of the dependent care credit claimed on joint returns was attributable to returns with less than $20,000 in adjusted gross income (AGI). By comparison, over 70 percent of the credit claimed on head of household returns was attributable to returns with less than $20,000 in AGI. The difference reflects the fact that two-earner households, on average, have higher income than single-earner households.

TABLE 16.—DISTRIBUTION OF DEPENDENT CARE CREDIT BY AGI, 1986

[In millions of dollars]

AGI class of tax return (thousands)	Joint returns	Head of household	Single returns	Total
$0 to $5	0	$0.3	0	$0.3
$5 to $10	$9.7	147.4	$12.6	169.7
$10 to $15	100.3	364.2	9.0	473.5
$15 to $20	128.0	289.2	12.2	429.4
$20 to $30	559.9	269.5	8.7	838.1
$30 to $50	915.7	65.4	1.6	982.7
$50 to $75	376.2	8.0	0	384.2
$75 to $200	109.8	2.7	0	112.5
$200 and over	6.4	1.5	0	7.9
Total	2,206.2	1,148.2	44.2	3,398.6

The average dependent care credit claimed on joint returns in 1986 was $352, $95 less than the average $447 claimed on head of household returns (see table 17).

TABLE 17.—PERCENT OF FILERS WITH CHILDREN CLAIMING DEPENDENT CARE CREDIT AND AVERAGE AMOUNT CLAIMED, 1986 [1]

AGI class of tax return (thousands)	Joint returns		Head of household	
	Average amount claimed	Percent claiming credit	Average amount claimed	Percent claiming credit
$0 to $5	$462	0.0	$34	8.5
$5 to $10	128	2.9	243	35.8
$10 to $15	258	8.9	501	35.9
$15 to $20	272	10.1	568	32.3
$20 to $30	348	16.3	510	30.3
$30 to $50	357	17.0	403	18.1
$50 to $75	419	15.4	466	12.8
$75 to $200	448	10.2	333	17.5
$200 and up	521	3.0	613	36.6
Average	352	13.8	447	31.1

[1] Numerator for the percent claiming credit includes those claiming credit with respect to disabled adults.

Only 8.5 percent of head of household returns with AGI less than $5,000 claim the dependent care credit in 1986, compared to 35.8 percent for head of household returns with AGI between $10,000 and $15,000. A study of the work and child care experience of families may provide some explanation. For those families with preschool age children and a single female as the head of the family, only 20 percent of those with income below the poverty level are working and only 52 percent of these working families use paid child care.

For the same type of families with income between one and two times the poverty level, 65 percent are working and 62 percent of those working pay for child care.[13] Also, low-income families with income below the Federal income tax threshold will be unable to benefit from the dependent care credit.

TABLE 18.—CHILD CARE CREDIT CLAIMABLE FOR RETURNS WITH MAXIMUM ALLOWABLE CHILD CARE EXPENSE ELIGIBLE FOR CREDIT, 1990

Adjusted gross income [1]	Joint return		Head of household	
	1 dependent	2 dependents	1 dependent	2 dependents
$10,000 [2]	$0	0	173	0
$14,000	368	60	672	465
$18,000	624	660	624	1,065
$22,000	576	1,152	576	1,152
$26,000	528	1,056	528	1,056
$30,000	480	960	480	960

[1] Table assumes taxpayer does not itemize deductions and all income is wages and salaries.

[2] The amount of credit that can be claimed may be less than the statutory maximum because the taxpayer has insufficient tax liability before application of the credit to get the benefit of the maximum statutory credit.

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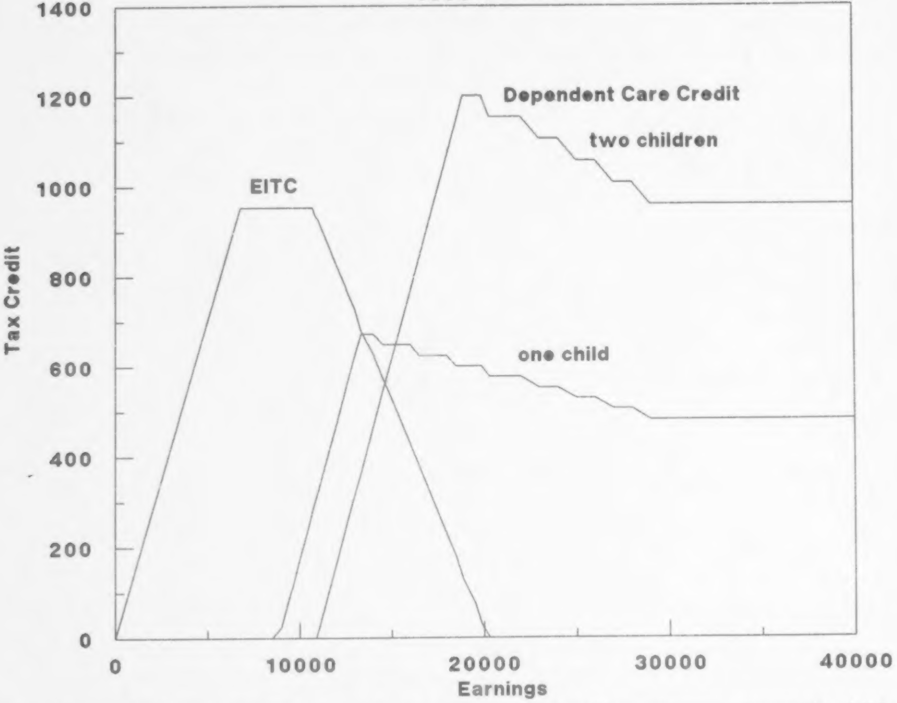
[13] Tabulations are based on the Survey of Income and Program Participation, for the winter of 1984-85, by Thomas Gabe and Sharon Stephan in *Child Day Care: Patterns of Use Among Families with Preschool Children*, Congressional Research Service, December 19, 1988.

Chart 1
The Earned Income and Dependent Care Credits
1990



Note: The dependent care credit is for a head of household with maximum allowable child care expenses eligible for the credit.

EXCLUSION FOR EMPLOYER-PROVIDED DEPENDENT CARE

Legislative history

The Economic Recovery Tax Act of 1981 added section 129 of the Internal Revenue Code, under which certain employer-provided dependent care is excluded from the employee's gross income. The 1981 Act also amended Code section 3121(a)(18) and section 3306(b)(13) to exclude such employer-provided dependent care from wages for purposes of the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA). Certain technical amendments were made to section 129 in the Technical Corrections Act of 1982 and in the Deficit Reduction Act of 1984. The Tax Reform Act of 1986 further amended Code section 129 by modifying the nondiscrimination rules and by limiting the exclusion to $5,000 a year ($2,500 in the case of a separate return by a married individual).

The Family Support Act of 1988 provided that the amount of expenses eligible for the dependent care credit is reduced, dollar for dollar, by the amount excluded from income under a dependent care assistance program.

The dependent care exclusion is intended to provide an incentive for employers to provide dependent care benefits to their employees.

Explanation of provision

Amounts paid or incurred by an employer for dependent care assistance provided to an employee generally are excluded from the employee's gross income if the assistance is furnished under a program meeting certain requirements. These include requirements that the program is in writing, that the program satisfy certain nondiscrimination rules, and that reasonable notification of the program is provided to eligible employees. The definition of dependent care eligible for the exclusion is the same as the definition of expenses eligible for the dependent care credit.

With respect to any taxpayer (including a married couple filing a joint return), the dependent care exclusion is limited to $5,000 in a year ($2,500 in the case of a married taxpayer filing a separate return). Amounts excluded from gross income generally are excludable from wages for employment tax purposes.

Effect of provision

The exclusion provides an incentive for compensation to be furnished in the form of dependent care assistance, rather than in cash subject to taxation. As is the case with any deduction or exclusion, this incentive is of greater value to employees in higher tax brackets.

Many employees covered by the exclusion for employer-provided dependent care also are eligible to use the dependent care tax credit. While the limitations on the exclusion and the credit differ, the credit generally is less valuable than the exclusion for taxpayers who are above the 15-percent tax bracket.

TARGETED JOBS TAX CREDIT

Legislative history

Congress enacted the targeted jobs tax credit (sec. 51 of the Internal Revenue Code) in the Revenue Act of 1978 to replace an expiring credit for increased employment. The targeted jobs credit is intended to provide an incentive for hiring specific, targeted groups of individuals. The groups eligible for the credit consist of individuals who are (1) recipients of payments under means-tested transfer programs, (2) economically disadvantaged (as measured by family income), or (3) disabled.

As initially enacted, the targeted jobs credit was allowed for qualified wages paid before 1982. The Economic Recovery Tax Act of 1981 (ERTA) extended the availability of the targeted jobs credit to qualified wages paid to individuals beginning work for the employer before 1983. Under ERTA, the employer could claim the credit for qualified wages paid to such individuals for services rendered in 1983 and 1984. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) extended the availability of the credit to qualified wages attributable to services performed in 1985 and 1986, paid to individuals who began work for the taxpayer before 1985. The Deficit Reduction Act of 1984 ("the 1984 Act") extended the availability of the credit to qualified wages attributable to services performed in 1986 and 1987, paid to individuals who began work for the taxpayer before 1986. The Tax Reform Act of 1986 ("the 1986 Act") extended the availability of the credit to qualified wages attributable to services performed in 1988 and 1989, paid to individuals who began work for the taxpayer before 1989. The Technical and Miscellaneous Revenue Act of 1988 ("the 1988 Act") extended the availability of the credit to qualified wages attributable to services performed in 1989, paid to individuals who began work for the employer before 1990. The credit expires for individuals hired after 1989.

In addition, ERTA, TEFRA, and the 1984 Act altered the targeted group definitions and made several administrative and technical changes in the credit provisions. The 1986 Act generally reduced the maximum credit per year, limited to one year the period per employee for which the credit may be claimed, and established a minimum employment period for credit eligibility. The 1988 Act restricted the category of economically disadvantaged youth to include only employees aged 18 through 22, reduced the credit percentage for disadvantaged summer youth employees from 85 to 40 percent and extended the authorization for appropriations for administrative and publicity expenses to fiscal year 1989.

Explanation of provision

The targeted job tax credit is available on an elective basis for hiring individuals from nine targeted groups. The targeted groups are: (1) vocational rehabilitation referrals; (2) economically disadvantaged youths aged 18 through 22; (3) economically disadvantaged Vietnam-era veterans; (4) Supplemental Security Income (SSI) recipients; (5) general assistance recipients; (6) economically disadvantaged cooperative education students aged 16 through 19; (7) economically disadvantaged former convicts; (8) Aid to Families with Dependent Children (AFDC) recipients and Work Incentive (WIN) registrants; and (9) economically disadvantaged summer youth employees aged 16 or 17. Targeted group membership must be certified.

The credit generally is equal to 40 percent of the first $6,000 of qualified first-year wages paid to a member of a targeted group. Thus, the maximum credit generally is $2,400 per individual. With respect to economically disadvantaged summer youth employees, however, the credit is equal to 40 percent of up to $3,000 of wages, for a maximum credit of $1,200.

The credit is not available for wages paid to a targeted group member unless the individual either (1) is employed by the employer for at least 90 days (14 days in the case of economically disadvantaged summer youth employees), or (2) has completed at least 120 hours of work performed for the employer (20 hours in the case of economically disadvantaged summer youth employees). Also the employer's deduction for wages must be reduced by the amount of the credit.

Under the Omnibus Budget Reconciliation Act of 1987, the credit is no longer available for wages paid to a targeted-group individual who performs the same or substantially similar services as an employee participating in, or affected by, a strike or lockout.

Effect of provision

The targeted jobs tax credit serves as a subsidy to the employer for hiring targeted group members. For example, the targeted jobs credit would provide an effective subsidy of nearly 22 percent of the first-year wages of a full-time employee hired at the minimum wage ($3.65 per hour) by a corporate employer.[14]

Almost 570,000 employees qualifed for the targeted jobs tax credit in 1987 (see Table 19). The net increase in U.S. employment is probably less than this amount because some of these employees might have been hired without the credit, and some noncredit eligible employees might have been displaced by the targeted jobs credit program.

TABLE 19.—VOUCHERS AND CERTIFICATIONS BY TARGETED GROUP, FISCAL YEAR 1987 [1]

Targeted group	Vouchers		Certifications	
	Number	Percent [2]	Number	Percent [2]
Economically disadvantaged youths 18 to 24	551.179	48.3	332,712	58.5
Economically disadvantaged Vietnam-era veterans	49,429	4.3	21,478	3.8
Economically disadvantaged former convicts	73,278	6.4	30,417	5.4
Economically disadvantaged summer youth	36,908	3.2	20,677	3.6
General assistance recipients	55,514	4.9	21,138	3.7
SSI recipients	7,097	.6	4,449	.8
AFDC recipients and WIN registrants	280,192	24.5	98,298	17.3
Vocational rehabilitation referrals	89,241	7.8	39,448	6.9
Total [3]	1,143,452	100.0	568,617	100.0

[1] A voucher is a preliminary determination that an individual is a member of a targeted group. A certification is a final eligibility determination, issued upon the request of a hiring employee.

[2] Due to rounding, percentages may not add to totals.

[3] Does not include certifications of economically disadvantaed cooperative education students. Such certifications are issued by participating schools rather than State employment security agencies which issue certifications for all targeted groups.

Source: U.S. Department of Labor.

Table 20 shows that certifications of eligibility for the targeted jobs tax credit increased from 306 thousand in 1980 to 569 thousand in 1987.

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[14] Assume a corporation hired a member of a targeted group full-time at the minimum wage of $3.65 an hour. Wage payments to the employee would be $7,300 and the credit to the employer would be $2,400. The employer is not permitted to deduct wage payments equal to the amount of the credit so, at a 34 percent tax rate, the effective subsidy would be $1,584.

TABLE 20.—VOUCHERS AND CERTIFICATIONS, 1979–87

	Vouchers (thousands)	Certifications [1] (thousands)
Fiscal year:		
1979 [2]	84	37
1980	617	306
1981	734	412
1982	625	202
1983	1,287	431
1984	1,338	563
1985	1,343	622
1986	(3)	(3)
1987	1,143	569

[1] Does not include certificates of economically disadvantaged cooperative education students. Such certifications are issued by participating schools rather than State employment security agencies which issue certification of all other targeted groups.

[2] First year targeted jobs tax credit was available.

[3] Not available.

EXCLUSION OF WORKERS' COMPENSATION AND SPECIAL BENEFITS FOR DISABLED COAL MINERS

Legislative history

Workers' compensation.—Under section 104(a)(1) of the Internal Revenue Code of 1986, workers' compensation benefits generally are not taxable. Present law provides, however, that workers' compensation benefits are treated as social security benefits to the extent such benefits reduce social security benefits received (see above). This exclusion from gross income was first codified in the Revenue Act of 1918. The Ways and Means Committee report for that Act suggests that such payments were not subject to tax even prior to the 1918 Act.

The rationale for this exclusion is not offered in the legislative history; however, several arguments frequently are made for maintaining this exclusion. One such argument is that it is inequitable to tax payments that are in lieu of damages under State tort law, while continuing to exclude from income actual damage payments on account of personal injuries or sickness (Code sec. 104(a)(2)). Another argument is that eliminating the exclusions for wage replacement payments could cause employers and State and local governments to alter their wage replacement programs to take account of the recipients' tax liability. This might increase the overall expenditures required to maintain these programs. Alternatively, net benefits to recipients might be reduced by the imposition of tax.

Benefits for disabled coal miners.—Payments made to coal miners or their survivors for death or disability resulting from pneumoconiosis (black lung disease) under the Federal Coal Mine Health and Safety Act of 1969 (as amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, and the Black Lung Benefits Revenue Act of 1981) are excluded from gross income.

Payments made as a result of claims filed before December 31, 1972, originally were excluded from Federal income tax by the Federal Coal Mine Health and Safety Act of 1969. Later payments are excluded from gross income because they are considered to be in the nature of workers' compensation (Rev. Rul. 72-400, 1972-2 C.B. 75).

Explanation of provision

Workers' compensation.—Present law provides that gross income does not include amounts received under workers' compensation acts as compensation for personal injuries or sickness. This exclusion also applies to benefits paid under a workers' compensation act to a survivor of a deceased employee.

Benefits for disabled coal miners.—Under present law, benefits for disabled coal miners (black lung benefits) are not includible in gross income.

There are two types of black lung programs. The first involves Federal payments to coal miners and their survivors due to death or disability, payable for claims filed before July 1, 1973 (Dec. 31, 1973, in the case of survivors). Monthly cash benefits are related to the GS-2 civil service pay scale and number of dependents. This program provided total annual payments of around $1 billion to approximately 276,000 beneficiaries in 1986.[15]

The second program requires coal mine operators to insure payment of black lung benefits for claims filed on or after July 1973 (December 31, 1973, in the case of survivors) in a federally mandated workers' compensation program. Benefits include medical treatment as well as cash payments which, in general, are the same as provided under the program described above. These benefits are paid from a trust fund financed by an excise tax on coal production if there is no responsible operator (an operator for whom the miner worked 1 year) or if the responsible operator is in default. This program provided total annual payments of around $583 million to approximately 160,000 claimants in 1985.[16]

ADDITIONAL STANDARD DEDUCTION FOR THE ELDERLY AND BLIND

Legislative history

From 1954 through 1986, an additional personal exemption was allowed for a taxpayer or a spouse who was 65 years or older at the close of the year. An additional personal exemption also was allowed for a taxpayer or a spouse who was blind. The additional personal exemption was provided because the Congress concluded that the tax law should allow additional tax relief to elderly and blind individuals.

Explanation of provision

Beginning in 1987, the Tax Reform Act of 1986 provides tax relief to the elderly or blind (apart from reduced tax rates) through an additional standard deduction amount, in lieu of an extra personal exemption. The additional amount is $600 for an elderly or a blind individual who is married (whether filing jointly or separately) or is a surviving spouse, and $1,200 for such an individual who is both elderly and blind. An additional standard deduction amount of $750 is allowed for a head of household who is elderly or blind ($1,500, if both), and for a single individual (i.e., an unmarried individual other than a surviving spouse or head of household) who is elderly or blind ($1,500, if both).

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[15] Preliminary numbers from the Statistical Abstract of the United States, 1988.
[16] Ibid.

For elderly or blind taxpayers only, the new basic standard deduction amounts under the 1986 Act (e.g., $5,000 for married individuals filing jointly) and the additional $600 or $750 standard deduction amounts were effective beginning in 1987. For example, for married taxpayers both of whom were 65 or older, the standard deduction in 1987 on a joint return was $6,200. If only one spouse was 65 or older, or blind, the standard deduction in 1987 on a joint return was $5,600. Beginning in 1989, the $600 and $750 additional standard deduction amounts will be adjusted for inflation.

The definitions of elderly and blind status have not been changed since 1954. An elderly person is an individual who has reached or passed 65 years of age. Blindness is defined in terms of the ability to correct a deficiency in distance vision or the breadth of the area of vision. An individual is blind only if central vision acuity is not better than 20/200 in the better eye with correcting lenses, or if visual acuity is better then 20/200, but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

TABLE 21.—DISTRIBUTION OF TAX EXPENDITURE: ADDITIONAL STANDARD DEDUCTION FOR THE ELDERLY AND BLIND, 1990

Income class (thousands)	Returns (thousands)	Amount (millions)	Average
0 to $5	0	0	0
$5 to $10	10	0	$45
$10 to $15	669	$83	124
$15 to $20	1,143	169	148
$20 to $30	2,919	506	173
$30 to $50	2,873	574	200
$50 to $75	739	201	272
$75 to $200	225	67	295
$200 and over	24	6	266
Total	8,603	1,606	187

Effect of provision

The additional standard deduction provided by the 1986 Act increases the tax threshold for elderly and blind taxpayers. The additional amount is $12,200 for two elderly individuals on a joint return, raising the tax threshold in 1988 from $8,900 to $10,100. Under prior law, the tax threshold in 1988 for elderly married individuals filing a joint return would have been approximately $8,160, plus an adjustment for inflation during 1987.

In 1990, it is estimated that more than 55 percent of the beneficiaries of this tax provision have incomes of less than $30,000. As table 21 shows, these taxpayers receive 47 percent of the tax benefits from the additional standard deduction.

TAX CREDIT FOR THE ELDERLY AND CERTAIN DISABLED INDIVIDUALS

Legislative history

The present tax credit for individuals who are age 65 or over, or who have retired on permanent and total disability, was enacted in the Social Security Amendments of 1983 (Code sec. 22). This credit replaced the previous credit for the elderly, which had been enacted in the Tax Reform Act of 1976. Prior to that provision, the tax law provided a retirement income credit, which initially was enacted in the Internal Revenue Code of 1954.

The retirement income credit was intended to remove inequities between individuals who received retirement income which was not tax-exempt and those who received Social Security payments which were tax-exempt. The retirement income credit was applicable to retirement income only. In 1976, the tax credit for the elderly was enacted to (1) restore the purchasing power of the maximum amount of income eligible for the credit, (2) eliminate the complexity of the retirement income credit, and (3) allow individuals earning any form of income, as well as individuals receiving only retirement income, to qualify for the credit.

In the Social Security Amendments of 1983, the credit for the elderly and permanently and totally disabled was enacted to provide greater equity between Social Security retirement recipients and other retirees with income below certain levels. Because the 1983 amendments provided that one-half of the amount of Social Security benefits is includible in gross income for taxpayers having adjusted gross income (computed with modifications) exceeding $25,000 for single individuals and $32,000 on joint returns, the disparity in tax treatment between Social Security and other retirement payments was lessened for taxpayers with incomes above these thresholds.

Explanation of provision

Individuals who are age 65 or older may claim a nonrefundable income tax credit equal to 15 percent of a base amount. The credit also is available to an individual, regardless of age who is retired on disability and who was permanently and totally disabled at retirement. For this purpose, an individual is considered permanently and totally disabled ("disabled") if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, or that has lasted or can be expected to last for a continuous period of not less than 12 months. The individual must furnish proof of disability to the IRS.

In computing the amount of the credit, a maximum base amount is specified in the statute, and certain reductions are then made. The statute specifies the initial base amount to be $5,000 in the case of an unmarried elderly or disabled individual, or in the case of a married couple filing a joint return if only one spouse is eligible for the credit; $7,500, in the case of a married couple filing a joint return with both spouses eligible for the credit; or $3,750, in the case of a married couple filing separate returns. For a disabled individual who is under age 65, however, the initial base amount is the lesser of the applicable specified amount or the individual's disability income for the year. Consequently, the maximum credit available is $750 (15 percent of $5,000), $1,125 (15 percent of $7,500), or $562.50 (15 percent of $3,750), depending on the initial base amount applicable to the taxpayer.

The initial base amount is reduced by the amount of certain nontaxable income of the taxpayer, such as nontaxable pension and annuity income or nontaxable Social Security, railroad retirement, or veterans' non-service-related disability benefits. In addition, the initial base amount is reduced by one-half of the taxpayer's AGI in excess of $7,500, in the case of a single individual; $10,000, in the case of married taxpayers filing a joint return; or $5,000, in the case of married taxpayers filing separate returns. These computational rules reflect that the credit, as indicated above, is designed to provide tax benefits to individuals who receive only taxable retirement or disability income, or who receive a combination of taxable retirement or disability income plus social security benefits, that generally are comparable to the tax benefits provided to individuals who receive only Social Security benefits (including Social Security disability benefits).

To illustrate the computation of the credit, assume that a husband and wife are both 66 and file a joint return. During the year, the husband receives a taxable pension of $5,000, wages of $3,000, and Social Security benefits of $1,000. The wife receives as taxable pension of $2,000, wages of $1,000, and Social Security benefits of $400. They receive interest income of $200 on savings. The tax credit for the elderly is computed as follows:

Husband's taxable pension	$5,000
Husband's wages	3,000
Wife's taxable pension	2,000
Wife's wages	1,000
Interest on savings	200
Adjusted gross income (AGI)	11,200
Maximum amount upon which credit may be based	7,500
Less:	
Husband's social security benefits	1,000
Wife's social security benefits	400

One-half of AGI in excess of $10,000 (½ of $1,200)	600
Total	2,000
Amount on which tax credit is based ($7,500-$2,000)	5,500
Amount of credit (15 percent of $5,500)	825

Effect of provision

In 1987, $66 million of elderly and disabled credit was claimed. The utilization rate and amount of credit granted has been relatively stable since the program's inception.

TABLE 22.—CREDIT FOR THE ELDERLY AND DISABLED, 1976–87

	Number of families who received credit (thousands)	Total amount of credit (millions)	Average credit per return
Calendar year:			
1976	1,011	$206	$204
1977	569	93	163
1978	689	145	210
1979	607	132	217
1980	562	135	240
1981	474	124	262
1982	483	131	271
1983	423	116	275
1984	475	107	225
1985	460	106	230
1986 [1]	430	86	200
1987 [2]	351	66	186

[1] Preliminary.
[2] Estimated.

For 1986 it is estimated that more than 99 percent of the beneficiaries of this tax provision have incomes of less than $30,000. As Table 23 shows, these taxpayers receive almost 100 percent of the tax benefits from the tax credit for the elderly and disabled.

TABLE 23.—DISTRIBUTION OF TAX EXPENDITURE: CREDIT FOR THE ELDERLY AND DISABLED, 1986

Income class (thousands)	All returns		
	Returns (thousands)	Amount (millions)	Average
0 to $5	45	$11	$244
$5 to $10	222	49	221
$10 to $15	119	22	185
$15 to $20	44	3	68
$20 to $30	0	0	0

TABLE 23.—DISTRIBUTION OF TAX EXPENDITURE: CREDIT FOR THE ELDERLY AND DISABLED, 1986—Continued

Income class (thousands)	All returns		
	Returns (thousands)	Amount (millions)	Average
$30 to $50	0	0	0
$50 to $75	0	0	0
$75 to $200	0	0	0
$200 and over	0	0	0
Total	430	86	200

LOW-INCOME RENTAL HOUSING CREDIT

Legislative history

The low-income rental housing tax credit was first enacted in the Tax Reform Act of 1986 (the 1986 Act), and was intended to replace or supplement other tax incentives for low-income housing were available. These tax incentives consisted principally of special accelerated depreciation, 5-year amortization of rehabilitation expenses, expensing of construction period interest and taxes, and tax-exempt bond financing for multifamily residential rental property. The credit, as created in the 1986 Act, was intended to provide a more efficient mechanism for encouraging the production of low-income rental housing.

Explanation of provision

A tax credit may be claimed by owners of residential rental property used for low-income rental housing. The credit is claimed annually, generally for a period of 10 years. New construction and rehabilitation expenditures for low-income housing projects are eligible for a maximum 70 percent present value credit, claimed annually for 10 years. The acquisition cost of existing projects and the cost of newly constructed projects receiving other Federal subsidies are eligible for a maximum 30 percent present value credit, also claimed annually for 10 years. These credit percentages are adjusted monthly based on an Applicable Federal Rate (AFR).

For example, the credit percentage which may be claimed annually for newly constructed buildings placed in service in January 1989 is 9.20 percent. That is, 9.20 percent of the eligible basis of the building may be claimed as a tax credit for each of the next 10 years commencing with 1989. When this stream of 10 annual credit receipts is discounted at the average of the mid-term and long-term AFRs, the net of tax value of which is 6.66 percent for January 1989, the resulting present value is equal to 70 percent of the building's eligible basis.

The credit amount is based on the qualified basis of the housing units serving the low-income tenants. A residential rental project will qualify for the credit only if (1) 20 percent or more of the aggregate residential rental units in the project are occupied by individuals with 50 percent or less of area median income, or (2) 40 percent or more of the aggregate residential rental units in the project are occupied by individuals with 60 percent or less of area median income. These income figures are adjusted for family size. The low income set-aside is elected when the project is placed in service. Rents that may be charged families in units on which a credit is claimed may not exceed 30 percent of the applicable income qualifying as "low," also adjusted for family size.

To qualify for the credit, residential rental property must comply continuously with all requirements of the credit throughout a 15-year compliance period. Failure to comply results in a recapture of the tax benefits of the credit. A credit allocation from the appropriate State or local credit authority must be received by the owner of property eligible for the low-income housing tax credit, unless the property is substantially financed with the proceeds of tax-exempt bonds subject to the new private activity bond volume limitation. The allocation must be received in the year the building is placed in service or within the 2 preceding years. The aggregate amount of such credit allocated within the State is limited by the State annual low-income credit authority limitation.

Effect of provision

Data from 1987 tax returns concerning the low income housing tax credit currently are unavailable. Preliminary data from a HUD study utilizing a survey of State credit agencies indicate that in 1987, the first year of the credit, in excess of $54 million in credits were allocated to more than 1,300 projects. This represented approximately 19 percent utilization of credits available under the annual limitation. The credits were given in connection with over 34,000 units of low-income housing. Sixty-five percent of these units were the result of new construction or substantial rehabilitation. Over 90 percent of the projects elected to satisfy the 60 percent of area median income test. Thirty-two percent of all units were located outside metropolitan areas.[17]

It is estimated that because of greater familiarity with the credit, the liberalization of the carryover rule, and other more technical corrections made in the Technical and Miscellaneous Revenue Act of 1988, utilization of credit authority in 1988 and 1989 will substantially exceed the 19 percent estimated for 1987.

MEASUREMENT OF TAX EXPENDITURES

Estimates of tax expenditures as revenue losses are subject to important limitations. Each tax expenditure is measured in isolation. The difference between the estimate of tax liabilities under present law, which provides for a tax preference, and the higher level of tax liabilities if the provision did not exist, is the amount of the tax expenditure. For this computation, it generally is assumed that nothing else changes.

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[17] Miller, Ted R. and Paul M. Wright, "Use of the Low Income Tax Credit in 1987," The Urban Institute, HUD Contract 5773, September 27, 1988.

If two or more items were to be eliminated simultaneously, the result of the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that adding the amounts of various tax expenditure items is of quite limited usefulness.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating Federal assistance of any kind. To the extent that a replacement program would be adopted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated: it could involve direct expenditures, direct loans, or loan guarantees; or it could involve a different form of tax expenditure, or a general reduction in tax rates. If any of these provisions were repealed, adjustment might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy, but the estimates of tax expenditures do not anticipate such policy responses.

Concepts Used in Distributional Analysis

Unless otherwise specified, the income concept used to show the distribution of tax expenditures by income class is adjusted gross income plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside build-up on life insurance, (4) workers' compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities (such as limited partnership activities) which reduced adjusted gross income.

This definition of income represents an attempt to include items which clearly increase the ability to pay taxes, but which are not included in the present-law definition of adjusted gross income. The adjustment for losses from certain passive business activities takes into account that investments in such activities may result in losses for tax purposes that do not represent economic losses.

This income definition is subject to various limitations. It omits certain items which clearly affect ability to consume goods and services, including accrual of pension benefits, other fringe benefits (such as military benefits, veterans benefits, and parsonage allowances), means-tested transfer payments (such as Aid to Families with Dependent Children, Supplemental Security Income, food stamps, housing subsidies, and general assistance), and imputed rent on owner-occupied homes.

All income and deduction items and tax parameters are projected to 1990 levels based on economic assumptions consistent with the January 1989 forecast of the Congressional Budget Office.

The tax return is the unit of analysis in all tables, so that each income class consists of tax returns with the stated amount of income.

Unless specifically indicated, all distributional tables exclude returns filed by dependents.

Section 13. The Pension Benefit Guaranty Corporation[1]

The Pension Benefit Guaranty Corporation (PBGC) was established under title IV of the Employee Retirement Income Security Act of 1974 (ERISA) (88 Stat. 829, Public Law 93-406) to insure private pension beneficiaries against the loss of promised benefits if their plan is terminated without adequate funding.

Explanation of the Corporation and its Functions

ADMINISTRATION

The PBGC is a Government owned corporation. A three-member board of directors, chaired by the Secretary of Labor, administers the Corporation. The Secretary of Commerce and the Secretary of the Treasury are the other directors. ERISA provides for a seven-member Advisory Committee, appointed by the President, for staggered 3-year terms. The Advisory Committee advises the PBGC on issues such as the appointment of trustees in termination proceedings, investment of moneys, plan liquidations, and other matters as requested by the PBGC.

PLAN TERMINATION INSURANCE

Defined-benefit and defined-contribution plans

There are two basic kinds of pension plans: "defined benefit" and "defined contribution" plans. Under a defined benefit plan, employees receive a fixed benefit at retirement prescribed by formula. The employer makes annual contributions to the plan based on financial and actuarial calculations designed to ensure that the plan has sufficient funds to pay the benefit prescribed by the formula. Under a defined contribution plan, the employer's contribution to the plan, rather than the benefit promised by the plan, is fixed by formula. The benefit received by an employee at retirement is entirely dependent on two factors: total contributions made to the plan on the employee's behalf during the employee's participation in the plan, and the investment experience of the amounts contributed on the employee's behalf.

Under a defined contribution plan, the employee bears all the risk of poor investment performance of the assets invested in a plan. Whether the investments are invested well or poorly, the employee gets at retirement only what was actually earned.

Under a defined benefit plan, the employer bears the risk of poor investment performance, actuarial miscalculations, and low benefit estimates. If earnings on plan assets are less than projected, or if retirements occur earlier than predicted, or if unexpected benefit increases outpace the ability of the plan to fund benefits out of earnings on plan assets, the employer must contribute to the plan the difference between what was promised and what the plan is able to pay.

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[1] This section draws from: a CBO report entitled "Federal Insurance of Private Pension Benefits," October 1987; the PBGC Annual Report to Congress Fiscal Year 1987; and a Joint Committee on Taxation print entitled "Current Issues Relating to PBGC Premiums and Single-Employer Defined Benefit Pension Plans," May 15, 1987.

Defined benefit plans are fewer in number than defined contribution plans, but cover more participants and account for a greater volume of assets. In 1985, defined benefit pension plans accounted for 30 percent of all pension plans, but covered 64 percent of all pension participants and accounted for 71 percent of pension assets.

The PBGC insures benefits only under defined benefit plans. That is, under certain conditions, if defined benefit plan assets are not sufficient to fund promised benefits, and if the employer's financial condition is not sufficiently sound to make up the amounts promised under the plan, the PBGC pays pensions to beneficiaries up to certain monthly amounts. The operations of the insurance program, and insurance limits are described below. Defined contribution plans are not insured by the PBGC.

Single employer and multiemployer plans

Defined benefit plans insured by the PBGC fall into two categories: single employer plans and multiemployer plans. Multiemployer plans are collectively bargained arrangements maintained by more than one employer. Single employer plans, whether or not collectively bargained, are each maintained by one employer.

The risk to the PBGC posed by single employer plans is different from that posed by multiemployer plans. Generally, single employer plans are more vulnerable to the risk of underfunding due to financial weakness of the sponsoring employer; the PBGC is more vulnerable to the risk that a single employer will be unable to make up the difference between funded and promised benefits. Issues concerning insurance of multiemployer plans are more likely to concern the allocation of liabilities as firms enter and leave the participating group.

The PBGC insures the benefits of 39.2 million pension plan participants, including active workers and retirees. Of these, 79 percent, or 31 million, are covered by 110,000 single employer pension plans, and 21 percent, or 8.2 million, are covered by 2,300 multiemployer plans.

Other requirements for PBGC coverage

The PBGC covers only those defined benefit pension plans which meet the qualification requirements of Section 401 of the Internal Revenue Code. These are also the requirements that plans must meet in order to receive the significant tax benefits available to pension plans.

Generally, to be qualified under the Internal Revenue Code, a pension plan must be established with the intent of being a permanent and continuing arrangement; must provide definitely determinable benefits; may not discriminate in favor of highly compensated employees with respect to coverage, contributions or benefits; and must cover a minimum number of participants.

Pension plans specifically excluded from insurance by the PBGC include government and church plans, defined contribution plans, plans of fraternal societies financed entirely by member contributions and plans maintained by certain professionals with 25 or fewer participants.

HOW PLAN TERMINATION WORKS

Single employer plans

a. Standard terminations

An employer can terminate a single employer plan by notifying the participants and the PBGC. Only if the PBGC determines that the assets in the plan are sufficient to cover benefit liabilities under the plan will a standard termination be permitted. Generally, benefit liabilities equal all benefits earned to date by plan participants, including vested and nonvested benefits (which automatically become vested at the time of termination), and including early retirement supplements and subsidies. Benefit liabilities also include contingent benefits for which the event triggering the contingency has occurred (for example, plan shutdown benefits for participants employed in a plant which has actually been shut down). If the PBGC determines that assets are sufficient to cover liabilities (and that termination requirements, such as notice to employees, have not been violated), the plan distributes benefits to participants. The plan provides for the benefit payments it owes by purchasing annuity contracts from a life insurance company, or in certain circumstances, providing the benefits in lump sum distributions. Assets in excess of the amounts necessary to cover benefit liabilities may be recovered by the employer in an asset reversion. The employer must pay an income tax plus an additional 15 percent excise tax on the amounts in the reversion.

If assets in the plan are not sufficient to cover benefit liabilities, the employer may not terminate the plan unless the employer meets one of the standards for a distress termination. This rule is designed to ensure that the liabilities of an underfunded plan remain the responsibility of the employer, rather than PBGC, unless the employer meets strict standards of financial need indicating real inability to continue funding the plan.

b. Distress terminations

An employer with an underfunded plan may terminate the plan only if the employer meets one of four criteria necessary for a "distress" termination:

—The plan sponsor, and every member of the controlled group of which the sponsor is a member, is in bankruptcy liquidation; or

—The plan sponsor and every member of the sponsor's controlled group is in bankruptcy reorganization; or

—The termination is necessary to allow the employer to pay its debts when due; or

—The termination is necessary to avoid unreasonably burdensome pension costs caused solely by a decline in the employer's work force.

As a result of these requirements, added by the Single Employer Pension Plan Amendments Act of 1987, the insured event is no longer the termination of the plan, which is an event under the control of the plan's contributing employer. Rather, the insured event is an event not under the employer's control, such as bankruptcy or insolvency.

Once the PBGC determines that an underfunded plan qualifies for distress termination, the plan effectively goes into PBGC receivership. The PBGC becomes trustee of the plan, and a trust fund is established for funds taken into trusteeship. The PBGC takes control of any plan assets, and assumes responsibility for liabilities under the plan. The trust makes payments for benefit liabilities with assets received from two sources: assets in the plan before termination, and assets recovered from the employer (see below). The balance of guaranteed benefits owed to beneficiaries is paid from PBGC's revolving funds (see below).

What is guaranteed.—Within certain limits, the PBGC guarantees any retirement benefit that was nonforfeitable (vested) on the date of plan termination, and any death, survivor or disability benefit that was owed or was in payment status at the date of plan termination. Since all funded accrued benefits vest at the time of termination, only those benefits vested before termination are guaranteed. Only that part of the retirement benefit that is payable in monthly installments (rather, than for example, lump sum benefits payable to encourage early retirement) are guaranteed. Retirement benefits that commence before the normal age of retirement are guaranteed, provided they meet the other conditions of guarantee. Contingent benefits (for example, early retirement benefits provided only if a plant shuts down) are guaranteed only if in pay status at the time of termination.

There is a statutory ceiling on the amount of monthly benefits payable to any individual that may be guaranteed. This ceiling is indexed according to changes in the Social Security wage base, and had attained $1,909.09 by 1988. This limit is actuarially reduced for benefits that commence payment before the beneficiary attains age 65.

The guarantee for any new benefit, including benefits under new plans and benefits provided by amendment to already existing plans, is phased-in over five years following creation of the benefit.

Employer liability to the PBGC.—Following a distress termination, the plan's contributing employer, and every employer of that employer's controlled group, is liable to the PBGC for the excess of the value of the plan's liabilities as of the date of plan termination, over the fair market value of the plan's assets on the date of termination. The liability is joint and several, meaning that each member of the controlled group can be held responsible for the entire liability. Generally, the obligation is payable in cash or negotiable securities to the PBGC on the date of termination. Failure to pay this amount upon demand by the PBGC may trigger a lien on the property of each member of the contributing employer's controlled group, but not to exceed 30 percent of the collective net worth of all members of the controlled group. Obligations in excess of this amount are to be paid on commercially reasonable terms acceptable to the PBGC.

Asset allocation.—Assets recovered from the plan and from the employer (and members of the employer's controlled group) are allocated to pay benefits according to a priority schedule established by statute. Under this schedule, some nonguaranteed benefits are payable from recovered assets before certain nonguaranteed benefits. For example, certain benefits that have been in pay status for more than three years have priority over guaranteed benefits not in pay status. As a result, the reimbursement to PBGC for its payment of guaranteed benefits may be less than the total value of assets recovered from the terminated plan and the contributing employer.

Multiemployer plans

In the case of multiemployer plans, the PBGC insures plan insolvency, rather than plan termination. Accordingly, a multiemployer plan need not be terminated to qualify for PBGC financial assistance, but must be found to be insolvent. A plan is insolvent when its available resources are not sufficient to pay the plan benefits for the plan year in question, or when the sponsor of a plan in reorganization reasonably determines, taking into account the plan's recent and anticipated financial experience, that the plan's available resources will not be sufficient to pay benefits that come due in the next plan year.

For this purpose, a plan is in reorganization status when it fails to meet certain financial standards established by statute. A plan in reorganization is subject to more stringent minimum funding requirements than other plans, must meet certain notification requirements, and may pay benefits only in annuity form (other than lump sums of less than $3,500). Also for this purpose, available resources are the plan's cash, marketable assets, contributions, withdrawal liability payments, and investments earnings, less reasonable administrative expenses and amounts owed to the PBGC as repayment for any previous financial assistance.

If it appears that available resources will not support the payment of insured benefits, the PBGC will provide the additional resources needed as a loan. The PBGC may provide loans to the plan year after year. If the plan recovers from its financial status, it must begin repaying loans on reasonable terms in accordance with regulations.

PBGC guarantees benefits under a multiemployer plan of the same type as those guaranteed under a single employer plan, but a different guarantee ceiling applies. As a result of the Multiemployer Pension Plan Amendments Act of 1980 (Public Law 96-364), the limit for multiemployer plans is the sum of 100 percent of the first $5 of monthly benefits per year of credited service, and 75 percent of the next $15 of monthly benefit. (The 75 percent is reduced to 65 percent for plans that do not meet certain minimum funding standards). The guarantee limit is actuarially reduced for benefits payable to individuals who have not attained age 65.

FINANCIAL CONDITION OF THE PBGC

OVERVIEW

According to its most recent annual report, PBGC's multiemployer plan insurance program is in sound financial shape. Assets exceeded liabilities by $68.4 million in fiscal year 1987.

However, by 1987, the single employer pension plan was showing a deficit of $1.5 billion. That is, the present value of the sum of PBGC's expected premium income, plus assets recovered from terminated plans, plus assets owed by employers to the PBGC, plus investment income, fell short of the expected value of PBGC's liabilities to plan participants by this amount. This figure assumes that an additional $1.8 billion potential net claim by 3 plans sponsored by LTV and related companies is not assumed by the PBGC.

In 1986, LVT terminated three underfunded pension plans, which were assumed by PBGC. In 1987, PBGC restored the three plans to LTV. LTV is contesting the restoration of these plans in Federal court. If PBGC is unsuccessful in this litigation, and is required to take back the three plans, its accumulated deficit as of 1987 would have to be revised to $3.3 billion.

PBGC's deficit is attributable to the fact that net claims on the corporation exceed its expected premium income. As the discussion below shows, the net claims are disproportionately attributable to very few terminations, and especially to terminations of plans within the steel industry.

Claims

As of 1987, PBGC had net claims of slightly over $2 billion (see table 1). Net claims equal the value of guaranteed benefit liabilities owed by PBGC to participants and beneficiaries of terminated plans, less assets already in those plans, and less amounts owed to the PBGC by the employers who terminated underfunded plans assumed by the PBGC. Net claims equal the amount that has to be made up through premiums, earnings on PBGC assets or other sources of revenues.

TABLE 1.—CLAIMS EXPERIENCE BY FISCAL YEAR (SINGLE-EMPLOYER PROGRAM)

[Dollars in millions]

Fiscal year	Number of plans	Guaranteed benefit liability	Plan assets	Funding level [1] (percent)	Employer liability	Total net claims [2]
1975	98	$56	$19	34	$4	$32
1976	172	88	45	51	25	18
1977	129	51	21	40	8	23
1978	102	125	46	37	7	72
1979	78	81	32	40	4	45
1980	100	166	77	46	5	84
1981	135	178	75	42	27	76
1982	128	461	174	38	7	280
1983	140	408	224	55	10	174

TABLE 1.—CLAIMS EXPERIENCE BY FISCAL YEAR (SINGLE-EMPLOYER PROGRAM)—Continued

[Dollars in millions]

Fiscal year	Number of plans	Guaranteed benefit liability	Plan assets	Funding level [1] (percent)	Employer liability	Total net claims [2]
1984	90	47	20	42	1	27
1985	88	262	75	29	4	183
1986	86	1,140	375	33	193	573
1987	30	153	48	32	1	104
Pending	29	663	346	52	6	312
Total	1,405	3,880	1,576	41	300	2,003
Steel plans	183	2,110	727	34	217	1,165
Non-steel plans	1,222	1,770	849	48	83	838

[1] The percent funding level of plans assumed by the PBGC (column 5) equals the level of assets in such plans (column 4) divided by the total guaranteed benefit liability of plans assumed by the PBGC (column 3).

[2] Total net claims against the PBGC (column 7) equals the excess of total guaranteed benefit liabilities of plans assumed by the PBGC (column 3) over the sum of employer liability to the PBGC (column 6) plus assets of plans assumed by the PBGC (column 4).

Note: Numbers may not add up to totals due to rounding.

Source: PBGC Annual Report for Fiscal Year 1987, submitted to the Congress June 1988.

As shown by table 1, $1,165 million, or 60 percent, of PBGC's net claims are attributable to underfunded plans terminated by employers in the steel industry. Net claims by the steel industry are high for two reasons: First, total liabilities under these plans are high. Second, these plans tend to be less well funded than underfunded plans of employers in other industries (terminated steel industry plans on average had assets equal to 34 percent of guaranteed benefits, in contrast to 48 percent for plans terminated by employers in other industries).

These figures assume that the three plans restored by PBGC to LTV Steel and related companies do not become liabilities of the PBGC. If PBGC is unsuccessful in its litigation to defend the restoration of these plans, then total net claims against PBGC total $3,823 million; and total net claims attributable to the steel industry total $2,885 million, or 78 percent of total net claims against the PBGC.

As is shown by table 2, net claims against the PBGC are disproportionately attributable to the termination of a very small number of plans. Sixteen plans (1 percent of all plans with claims) account for 59 percent of net claims against PBGC. Eleven plans terminated by three employers (Wheeling-Pittsburgh, Kaiser Steel, and Allis-Chalmers) account for over $800 million in net claims. If the restoration of LTV's three plans is not upheld in pending litigation, these plans would almost double the net claims against PBGC.

TABLE 2.—DISTRIBUTION OF NET CLAIMS BY SIZE (SINGLE-EMPLOYER PROGRAM)

[Dollars in millions]

	Net claims (per-plan basis)	
	Number of plans	Total net claims [1]
Size:		
Greater than $100 million	4	$766
$50 to $100 million	1	55
$25 to $50 million	11	361
$10 to $25 million	17	262
$5 to $10 million	25	172
$2 to $5 million	46	147
$1 to $2 million	67	93
$0.5 to $1 million	97	68
$0.25 to $0.5 million	111	38
Less than $250,000	1,026	41
Total	1,405	2,003

[1] Net claims equal the excess of the total guaranteed benefit liability of plans assumed by the PBGC over the sum of employer liability to the PBGC plus the assets of plans assumed by the PBGC.

As shown by table 3, the number of plan terminations that result in claims against the PBGC is a tiny fraction of all plan terminations.

TABLE 3.—TOTAL NUMBER OF TERMINATED PLANS, NUMBER OF PLANS WITH CLAIMS AGAINST PBGC, AND ACCUMULATED DEFICIT

	Number of terminated plans	Number of claims against PBGC	Accumulated deficit end of year [1]
Fiscal year:			
1975	2,568	98	−15.7
1976	9,104	172	−41.0
1977	7,331	129	−95.3
1978	5,260	102	−137.8
1979	4,888	78	−146.4
1980	4,033	100	−94.6
1981	5,084	135	−188.8
1982	6,131	128	−332.8
1983	6,870	140	−523.3
1984	7,711	90	−462.0
1985	8,723	88	−1,325.3
1986	6,915	86	−3,826.4
1987 [2]	10,924	59	−1,548.5
Total	85,542	1,405	

[1] The accumulated deficit is equal to the market value of assets minus the present value of program liabilities. It aggregates the multi-employer insurance plan (which is running a surplus), and the single-employer plan (which is running a large deficit). The net claims number in table 2 above is only for single-employer plans. Furthermore, the accumulated deficit includes the present value of future premium income.

[2] Includes 29 plans with large claims at the end of 1987.

Source: Pension Guaranty Corporation.

FINANCING

The sources of financing for PBGC are per capita premiums collected from insured plans, assets in terminated underfunded plans for which the PBGC has become trustee, investment earnings, and amounts owed to the PBGC by employers who have terminated underfunded plans. In addition, PBGC has the authority to borrow up to $100 million from the Treasury.

Single employer premiums.—An employer who maintains a covered single employer defined benefit pension plan must pay an annual premium for each participant under the plan. Initially set at $1 per participant, the per capita premium was raised to $2.60 beginning in 1979, and then raised again by the Single Pension Plan Amendments Act to $8.50 beginning in 1986. The Omnibus Budget Reconciliation Act of 1987 (OBRA) raised the basic premium to $16, and imposed an additional variable rate, or risk related, premium on underfunded plans. The variable rate premium equals $6 per each $1,000 per capita of the plan's unfunded vested benefits, up to a maximum of $34. Accordingly, the maximum premium equals $50 per participant. This maximum rate is not indexed. However, the rate is effectively indexed below the maximum if underfunding rises. PBGC has no authority to modify the rate. Single employer premium income equalled $267.6 million in 1987.

Multiemployer plan premiums.—The premium for multiemployer plans was initially $0.50 per participant. The Multiemployer Pension Plan Amendments Act raised the premium to $1.60 for years after 1980. This was set to increase gradually to $2.60, and is currently $2.20 per participant. PBGC has the authority to raise the premium if needed. Multiemployer premium income equalled $16.8 million in 1987.

Assets from terminated plans.—When PBGC becomes trustee of a plan, it receives control of any assets in the plan. These assets are placed in one of two trust funds (one for multiemployer plans, one for single employer plans). Assets recovered since the beginning of the insurance program total $1,576 million (see table 1).

Employer liability.—An employer which terminates an underfunded defined benefit plan is liable to the PBGC for certain amounts. Before the changes made by OBRA of 1987, an employer's liability was generally capped at 30 percent of the employer's net worth. The 1987 OBRA removed this limit, leaving employers liable for all amounts up to unfunded benefit liabilities. Through 1987, PBGC accumulated $300 million in liability owed by employers (see table 1).

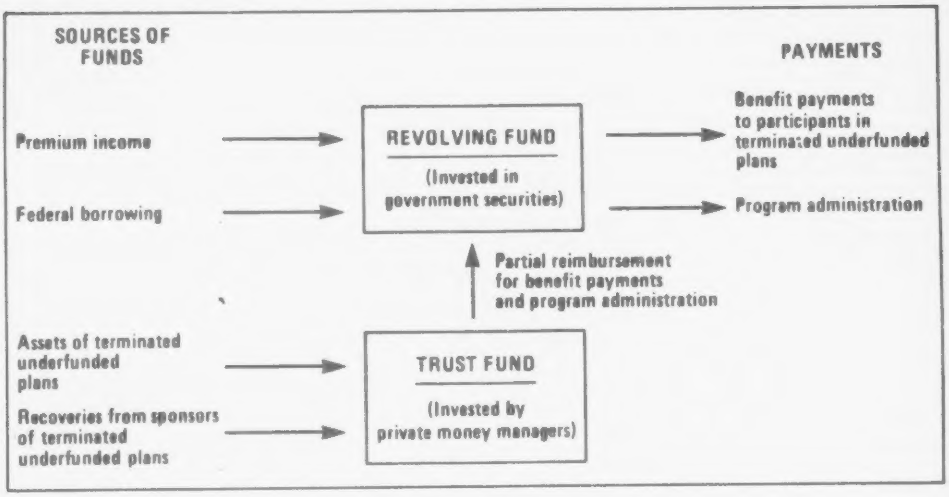
Investment income.—The PBGC maintains two separate financial programs, each consisting of a revolving fund and a trust fund, to sustain its single employer and multiemployer plan insurance programs. Its revolving funds consist of collected premiums and income resulting from investments of the premiums. They had a net market value of $521 million as of September 30, 1987.

The trust funds consist of assets received from all terminated plans of which PBGC is or will be a trustee, and employer liability payments. These assets are invested in a diversified portfolio of investments including equities, fixed income securities, and real estate. The net market value of the trust funds was $1.8 billion as of September 30, 1987.

Chart 1 diagrams the relationship between PBGC's financing and its payment of guaranteed benefits to plan participants.

Chart 1

Financial Structure of the Pension Benefit Guaranty Corporation


SOURCES OF FUNDS
PAYMENTS
Premium income
Federal borrowing
REVOLVING FUND
(Invested in government securities)
Benefit payments to participants in terminated underfunded plans
Program administration
Partial reimbursement for benefit payments and program administration
Assets of terminated underfunded plans
Recoveries from sponsors of terminated underfunded plans
TRUST FUND
(Invested by private money managers)

SOURCE: Congressional Budget Office.

LEGISLATIVE HISTORY

SINGLE EMPLOYER PLANS

The PBGC was created by the Employment Retirement Income Security Act of 1974 (ERISA) for the purpose of insuring benefits under defined benefit pension plans. As originally structured, in the case of a single employer plan, termination of the plan triggered the PBGC insurance mechanism. The contributing employer was liable to the PBGC for unfunded insured benefits up to 30 percent of the net worth of the employer. If unfunded insured liability exceeded this amount, PBGC had to absorb the excess and spread the loss over insured plans. Employers generally faced no restrictions on their ability to terminate an underfunded plan.

The Single Employer Pension Plan Amendments Act of 1985 (SEPPAA).

By September 30, 1985, PBGC reported that the deficit in its single employer insurance program was $1.3 billion, and growing rapidly. Congress responded by enacting legislation designed to halt this trend. Major reforms under SEPPAA, which was included as title XI of the Consolidated Omnibus Reconciliation Act of 1985 (P.L. 99-272), include:

—Raised the per participant premium to $8.50, from $2.60.

—Provided that an underfunded plan may be terminated only if the contributing employer, and every member of the employer's controlled group, meets certain criteria of "financial distress". As a result, employers could not place the liability for underfunded plans on the PBGC without demonstrating real financial inability to maintain and fund the plan.

—Provided that every employer in the contributing employer's controlled group was jointly and severally liable to the PBGC; and further provided that the 30 percent of net worth cap was to be calculated looking at all the assets of the controlled group.

Pension Protection Act of 1987

By the beginning of 1987, it was becoming increasingly apparent that the reforms implemented under SEPPAA were inadequate to insure the long term solvency of the PBGC. Accordingly, Congress enacted the Pension Protection Act of 1987 as part of the Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203), which included a number of significant reforms:

1. *Variable rate premium:*—The act raised the basic premium to $16, and instituted an additional premium that rises with the degree of underfunding in the plan, and thus the risk posed by the plan to the PBGC. The maximum combined premium was $50 under this scheme.
2. *Minimum funding standards.*—The act required faster funding of unfunded benefits, for the purpose of reducing PBGC's exposure in the event of plan termination.
3. *Employer liability to the PBGC.*—The act eliminated the 30 percent cap on employer liability altogether, and made the employer (and every member of the employer's controlled group) liable to the PBGC for the full amount of guaranteed benefits.

The act included additional significant reforms, including a quarterly pension funding requirement, a strengthening of PBGC's lien authority, a reduction of the number of times an employer may "waive," or decline to make, otherwise required plan contributions, and other modifications.

MULTIEMPLOYER PLAN INSURANCE PROGRAM

Coverage for multiemployer plans under ERISA was structured similarly to that of single employer plans. However, the PBGC was not required to insure benefits of multiemployer plans that terminated before July 1, 1978. Congress extended the deadline for mandatory pension coverage several times, until enactment of the Multiemployer Pension Plan Amendments Act of 1981, or MPPAA (P.L. 96-364). MPPAA required better funding for multiemployer plans, especially those in financial distress. It also improved the ability of plans to collect contributions from employers. MPPAA changed the insurable event that triggers PBGC protection to plan insolvency, rather than plan termination. Thus, if a multiemployer plan becomes financially unable to pay benefits when due, the PBGC will provide financial assistance to the plan, in the form of a loan. And finally, MPPAA imposed withdrawal liability on employers who ceased to contribute to a multiemployer plan.

BUDGETARY TREATMENT

Since 1981, administrative expenses of the PBGC and the benefit payments to participants in plans under the PBGC's trusteeship have been counted as Federal outlays. But certain receipts of the agency—including premium payments, interest on balances in the revolving fund, and transfers to the revolving fund from the trust fund—offset PBGC expenses in the Federal budget. This "cash-flow" view of the PBGC does not take account, however, of liabilities for future benefit payments and other accruals. The net financial position of the PBGC, which does take into account obligations to pay future benefits, contrasts sharply with its status in the Federal budget, which uses more of a cash-flow basis for accounting. In each year between 1981 (when the program was first included in the Federal budget) and 1986, the effect of the PBGC has been to reduce overall Federal outlays (see table 4). During this period, the PBGC reported receipts in excess of benefit payments and administrative costs by a cumulative total of $240 million. In years before 1981, Federal accounts for the PBGC would also have shown annual inflows exceeding expenses in each year of program operation.

TABLE 4.—FEDERAL BUDGETARY TREATMENT OF THE PBGC, 1975–1987

[In millions of dollars]

	Expenses [1]	Offsetting collections [2]	Outlays appearing in the Federal budget [3]
Not included in the Federal budget [4]			
Fiscal year:			
1975	3.2	35.5	NA
1976	12.8	28.5	NA
1977	21.0	41.0	NA
1978	47.6	61.3	NA
1979	52.3	91.5	NA
1980	59.1	90.1	NA
Total	196.0	348.5	NA
Included in the Federal budget [4]			
Fiscal year:			
1981	79.4	123.1	−29.0
1982	104.3	157.0	−66.9
1983	161.2	182.4	−9.5
1984	180.0	189.8	−9.9
1985	195.3	210.4	−19.1
1986	272.1	343.9	−105.9
1987	508.6	636.8	−71.9
Total	1,500.9	1,834.4	−312.2

[1] Includes primarily administrative costs and benefit payments.

[2] Includes primarily premium income, interest income, and transfers from the pension insurance trust fund to the revolving fund.

[3] Outlays do not equal the difference between expenses and offsetting collections because of changes in obligated program balances between the beginning and the end of the fiscal year.

[4] The PBGC was first included in the federal budget in 1981, in accordance with Public Law 96–364.

Source: Congressional Budget Office using data from the appendix to the Federal budget, various years.

Note: This table includes both the single-employer and multiemployer pension insurance programs. (NA = not applicable.)

FUTURE FINANCIAL STATUS OF THE PBGC

The future financial condition of the pension insurance program is highly uncertain because it will depend largely on how many private pension plans terminate and on the amount of underfunding in those plans. Both factors are hard to forecast accurately. Moreover, as was discussed above, a few pension plans with extremely large unfunded liabilities have dominated PBGC's past claims, and its future may likewise depend significantly on the fate of a few large plans, making liabilities even more difficult to predict.

Future terminations will probably be influenced by overall economic conditions, by the prosperity of particular industries, by competition from abroad, and by a variety of factors that are specific to particular firms—such as their competitive position in the industry, their agreements with labor groups, and the assessments of their financial prospects that are necessary for them to obtain credit.

The PBGC in its annual report presents three different forecasts of future claims and resulting deficits and surpluses. Forecast A is based on the average annual net claim over the entire PBGC history. Forecast B is based on the average annual net claim over the most recent 6 fiscal years, while forecast C assumes forecast B plus an additional claim of $2 billion once every 5 years. Under forecast A, a surplus of $1.1 billion is achieved by the end of fiscal year 1997. Under the assumptions in forecast C, a deficit of $9.5 billion is projected at the end of fiscal year 1997. All three projections take into account the variable rate premium enacted by the Pension Protection Act of 1987 and included in OBRA of 1987. However, the projections do not take into account other changes made by the Pension Protection Act designed to improve plan funding and strengthen the ability of the PBGC to recover assets from employers who terminate underfunded plans.

TABLE 5.—YEAR BY YEAR PROJECTIONS OF PBGC DEFICITS UNDER VARIOUS FORECASTS [1]

[Amounts as of September 30]

	Dollars in millions		
	Forecast A	Forecast B	Forecast C
Fiscal year:			
1987 (actual)	$1,549	$1,549	$1,549
1988	1,664	1,807	2,234
1989	1,379	1,679	2,577
1990	1,082	1,563	3,000
1991	778	1,465	3,518
1992	468	1,390	4,145
1993	152	1,342	4,895
1994	(164)	1,329	5,786
1995	(479)	1,357	6,839
1996	(789)	1,435	8,072
1997	(1,092)	1,569	9,510

[1] PBGC's deficit equals the excess of guaranteed liabilities in plans assumed by the PBGC, over the sum of assets in plans assumed by the PBGC, liabilities owed by employers to the PBGC, and the present value of expected premium income.

See text for a brief description of each forecast.

Note: ( ) = Surplus.

Source: PBGC, Annual Report to the Congress, fiscal year 1987.

APPENDIX G. DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FAMILIES WITH CHILDREN

INTRODUCTION

This appendix describes changes in the demographic and economic characteristics of families with children. It covers a variety of topics related specifically to these families, including:

—the changing composition of families,
—the living arrangements of children,
—teenage pregnancy and child bearing,
—prenatal care,
—infant mortality,
—the labor force participation of women,
—child care,
—earnings and other income sources of families with children,
—the Federal tax treatment of families in poverty, and
—the impact of means-tested programs and Federal tax policy on the disposable income of female-headed families.

CHANGING FAMILY COMPOSITION

As table 1 demonstrates, the number of one-parent families with children has increased rapidly over the past one and one-half decades. This trend is largely the result of higher divorce and lower remarriage rates and an increase in the number of never-married mothers. At the same time, the number of two-parent families with children has actually declined, due partly to lower marriage rates as individuals opt not to marry or opt to postpone marriage. Between 1970 and 1987, the number of one-parent families increased 142 percent, growing from 3.8 to 9.2 million. Over the same period, the number of two-parent families decreased 3.1 percent, falling from 25.8 to 25.0 million.

As a result of these trends, the composition of families in the United States has changed. Whereas in 1970 two-parent families accounted for 87 percent of all families with children, in 1987 these families accounted for 73 percent of all families with children.

The decline in the incidence of two-parent families is especially pronounced among the black population. The proportion of white families maintained by two parents declined from 90 percent in 1970 to 78 percent in 1987, while the proportion of black families maintained by two parents declined from 64 percent in 1970 to 42 percent in 1987. One should note, however, that although the incidence of one-parent families is higher among blacks than whites, a majority of all one-parent families with children is white. In 1987, 66 percent of all families maintained by one parent was white.

The majority of one-parent families is headed by a female. In 1987, 88 percent of all one-parent families with children were maintained by the mother, while 12 percent were maintained solely by the father. This percentage breakdown has changed only slightly since 1970.

The marital status of women who maintain one-parent families has changed dramatically over the period from 1970 to 1986. In 1970, only 7 percent of women maintaining families alone could be classified as having never been married, compared to 32 percent in 1987. Further, by 1987, a greater proportion of those women heading families who had ever married could be classified as having been divorced: in 1970, 35 percent of women in this group were divorced, compared with 60 percent in 1987.

TABLE 1.—TWO-PARENT AND ONE-PARENT FAMILIES AS PROPORTIONS OF ALL FAMILIES WITH CHILDREN PRESENT, BY RACE: 1970, 1980, 1985, 1986 AND 1987

Subject	All races					White			Black		
	1970	1980	1985	1986	1987	1970	1986	1987	1970	1986	1987
	Number in thousands										
Total with children under 18	29,631	32,150	33,372	33,939	34,242	26,115	28,041	28,180	3,219	4,772	4,964
Two-parent family groups	25,823	25,231	24,573	25,010	25,006	23,477	22,076	22,075	2,071	2,022	2,059
One-parent family groups	3,808	6,920	8,779	8,930	9,236	2,638	5,964	6,105	1,148	2,752	2,904
Maintained by mother	3,415	6,230	7,737	7,842	8,128	2,330	5,070	5,190	1,063	2,597	2,747
Never married	248	1,063	2,208	2,276	2,575	73	885	1,015	173	1,355	1,512
Spouse absent	1,377	1,743	1,732	1,724	1,734	796	1,129	1,116	570	546	563
Separated	962	1,483	1,524	1,506	1,513	477	972	970	479	510	498
Divorced	1,109	2,721	3,228	3,294	3,308	930	2,676	2,708	172	561	534
Widowed	682	703	569	546	511	531	380	352	148	133	139
Maintained by father	393	692	1,042	1,088	1,108	307	894	914	85	155	157
	Percent distribution										
Total with children under 18	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Two-parent family groups	87.1	78.5	73.6	73.7	73.0	89.9	78.7	78.3	64.3	42.4	41.5
One-parent family groups	12.9	21.5	26.3	26.3	27.0	10.1	21.3	21.7	35.7	57.7	58.5
Maintained by mother	11.5	19.4	23.2	23.1	23.7	8.9	18.1	18.4	33.0	54.4	55.3
Never married	.8	3.3	6.6	6.7	7.5	.3	3.2	3.6	5.4	28.4	30.5
Spouse absent	4.6	5.4	5.2	5.1	5.1	3.0	4.0	4.0	17.7	11.4	11.3
Separated	3.2	4.6	4.6	4.4	4.4	1.8	3.5	3.4	14.9	10.7	10.0
Divorced	3.7	8.5	9.7	9.7	9.7	3.6	9.5	9.6	5.3	11.8	10.8
Widowed	2.3	2.2	1.7	1.6	1.5	2.0	1.4	1.2	4.6	2.8	2.8
Maintained by father	1.3	2.2	3.1	3.2	3.2	1.2	3.2	3.2	2.6	3.2	3.2

Note: Family groups consist of family households, related subfamilies, and unrelated subfamilies.

Source: U.S. Bureau of the Census, Current Population Reports, Series P–20, Household and Family Characteristics: March of Each Year. Washington, U.S. Govt. Print. Off.

LIVING ARRANGEMENTS OF CHILDREN

Tables 2 and 3 below describe trends in the living arrangements of children. The changing composition of families over the 1970 through 1987 period directly affected the living arrangements of children. Although the total number of children under age 18 years old in the United States declined from 69 to 63 million, the proportion of children affected by the divorce or separation of their parents, or the unmarried status of their mother, grew considerably. As a result, both the number and proportion of children living in one-parent families increased dramatically between 1970 and 1987. The number of children living with one parent grew 84 percent, from 8.2 to 15.1 million. Over 23 percent of all children lived in one-parent families in 1987, compared with 12 percent in 1970. These aggregate figures do not reveal the significant differences for black and white children. In 1987, 19 percent of all white children under age 18 and 53 percent of all black children under age 18 lived with one parent.

In both 1970 and 1987, the majority of children in one-parent families lived with a mother rather than a father, and the percentage breakdown changed only slightly during this period. Of children living with one parent, 90.9 percent lived with their mother in 1970, compared with 89.1 percent in 1987. Between 1970 and 1987, the number of children living with only a father grew from 0.7 million to 1.7 million.

As one would expect from the data presented in the previous subsection, a greater proportion of children in one-parent families lived with a divorced or never-married parent in 1987 compared with 1970. In 1987, 41 percent of children in one-parent families lived with a divorced parent, representing more than double the 1970 number; 29 percent lived with a parent who had never been married, representing nearly 7 times the 1970 number.

The data in the above paragraphs present a snapshot of the living arrangements of children at a given point in time. However, a snapshot approach can be misleading for several reasons, three of which are described here.[1] [2] One, snapshot data understate the number of children who will spend at least some time in a single-parent home. Based on current trends, it is estimated that 70 percent of white children and 94 percent of black children born in 1980 will spend part of their childhood in a single-parent home before the age of 18. These lifetime prevalence data present a much different view than do the snapshot data. Two, in one respect the snapshot approach overstates differences between blacks and whites. On average, blacks become mothers at an earlier age and are also less likely to marry or remarry than whites. As a result, snapshot data is closer to lifetime prevalance data for blacks than it is for whites. Although the snapshot data illustrate that the proportion of children living in a single-parent home is three times greater for blacks than whites, the lifetime prevalence data is only 35 percent higher for blacks than it is for whites. Three, the snapshot approach does not give any indication of the length of time that children tend to spend in a single-parent home. The length of time spent in a single-parent home is much higher for black children since their mothers tend to have lower marriage and remarriage rates. It is estimated that black children born in 1980 will on average spend 59 percent of their childhood in a single-parent family; white children born in 1980 can expect to spend, on average, 31 percent of their childhood in a single-parent family.

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[1] The discussion in this paragraph is from "Single Mothers and Their Children," by Irwin Garfinkel and Sara S. McLanahan, The Urban Institute, 1986.

[2] Data are based on the PSID, and are found in "Updating Children's Life Course," by Sandra Hofferth, "Journal of Marriage and Family," February 1985.

TABLE 2.—LIVING ARRANGEMENTS OF CHILDREN UNDER 18 YEARS: 1970, 1980, 1985, 1986, AND 1987

[Excludes persons under 18 years old who maintain households or family groups]

Living arrangements of children and marital status of parent	All races					1987 by race		
	1970	1980	1985	1986	1987	White	Black	Hispanic orgin [1]
	Numbers in thousands							
Total	69,162	63,427	62,475	62,763	62,932	51,112	9,612	6,647
Living with:								
Two parents	58,939	48,624	46,149	46,384	46,009	40,407	3,852	4,355
One parent	8,199	12,466	14,635	14,759	15,071	9,569	5,087	2,027
Mother only	7,451	11,406	13,081	13,180	13,420	8,231	4,844	1,843
Father only	748	1,060	1,554	1,579	1,651	1,338	243	184
Other relatives or nonrelatives only	2,024	2,337	1,691	1,620	1,852	1,137	674	265
	Percent distribution							
Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Living with:								
Two parents	85.2	76.7	73.9	73.9	73.1	79.1	40.0	65.5
One parent	11.9	19.7	23.4	23.5	23.9	18.7	52.9	30.5
Mother only	10.8	18.0	20.9	21.0	21.3	16.1	50.4	27.7
Father only	1.1	1.7	2.5	2.5	2.6	2.6	2.5	2.8
Other relatives or nonrelatives only	2.9	3.7	2.7	2.5	2.9	2.2	7.0	4.0

	Numbers in thousands							
CHILDREN LIVING WITH ONE PARENT								
Total	8,199	12,466	14,635	14,759	15,071	9,569	5,087	2,027
Marital status of parent:								
Never married	557	1,820	3,756	3,924	4,295	1,599	2,610	640
Married, spouse absent	3,521	3,898	3,750	3,643	3,720	2,381	1,196	660
Separated	2,484	3,327	3,291	3,230	3,297	2,096	1,079	605
Widowed	1,649	1,469	1,101	1,047	916	619	260	124
Divorced	2,473	5,281	6,030	6,146	6,139	4,970	1,021	602
	Percent distribution							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Marital status of parent:								
Never married	6.8	14.6	25.7	26.6	28.5	16.7	51.3	31.6
Married, spouse absent	42.9	31.3	25.6	24.7	24.7	24.9	23.5	32.6
Separated	30.3	26.7	22.5	21.9	21.9	21.9	21.2	29.8
Widowed	20.1	11.8	7.5	7.1	6.1	6.5	5.1	6.1
Divorced	30.2	42.4	41.2	41.6	40.7	51.9	20.1	29.7

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[1] Persons of Hispanic origin may be of any race.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–20. Marital Status and Living Arrangements: March of Each Year. Washington, U.S. Govt. Printing. Off.

TABLE 3.—STATUS OF CHILDREN: 1960–1987

[In thousands]

	1960	1970	1975	1980	1985	1986	1987
Children under 18:							
Total in population	63,727	69,162	64,165	63,427	62,475	62,763	62,932
Living with 1 parent	5,832	8,199	11,245	12,466	14,635	14,759	15,071
As percent of all children	9.2	11.9	17.5	19.7	23.4	23.5	23.9
Living with never-married parent	243	557	1,198	1,820	3,756	3,924	4,295
As percent of all children	.4	.8	1.9	2.9	6.0	6.3	6.8
Receiving AFDC [1]	2,314	6,214	8,095	7,419	7,198	7,334	7,366

[1] Includes some children ages 18 to 22.

Source: Based on Census and DHHS publications.

STATISTICAL TRENDS IN TEENAGE PREGNANCY [3]

Some observers have argued that recent teenage pregnancy rates reflect the increasing size of the vulnerable (i.e., sexually active) population, even though the overall teenage population has been declining. National Center for Heath Statistics (NCHS) survey data from 1982 indicate that the percentage of women aged 20–24 who reported they had experienced nonmarital sexual activity during the teen years was 70 percent greater than those aged 40–44 reported for their teen years. Other surveys have found there was an increase in reported adolescent nonmarital sexual activity during the 1970s. Recent reports indicate that 44 percent of young women and 64 percent of young men are sexually active by their 18th birthday.

Researchers at the Centers for Disease Control (CDC) have used these various national surveys to calculate estimates of never-married women aged 15 to 19 who have ever had sexual intercourse. Table 4 presents these estimates by race for 1974, 1980 and 1983. These estimates revealed that sexual activity among black teenage females (just under 60 percent having had at least one experience), has remained relatively constant, declining only slightly, over the last decade. On the other hand, the percent of white teenage females who have had sexual intercourse at least once has dramatically risen over the past decade—by 43 percent from 1974 to 1983—according to the CDC estimates.

TABLE 4.—ESTIMATES OF ADOLESCENT SEXUAL EXPERIENCE

Percentages by race of never-married women aged 15–19 who ever had sexual intercourse	1974	1980	1983
White	28.1	37.4	40.2
Black	58.3	59.3	57.8

Source: Maciak, et al., Division of Reproductive Health, Centers for Disease Control.

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[3] This subsection draws heavily from a CRS brief entitled "Teenage Pregnancy: Issues and Legislation," October 31, 1988, by Ruth Ellen Wasem and Sharon Stephan.

Regardless of changes in sexual activity among adolescents, most pregnancies to teenagers are unintended. Two-thirds of all births to females aged 15 to 19 are estimated to be unintended. Research, including NCHS surveys, indicates that black adolescents report a somewhat higher percentage of unintended births than white adolescents—73.7 and 67.9 percent respectively. Among those girls 14 or younger, almost all pregnancies are estimated to be unintended.

Estimates from the Alan Guttmacher Institute (AGI) indicate that the *number* of pregnancies to teens age 15-19 increased between 1973 and 1980, but decreased from 1980 to 1983. However, the *rate* of pregnancies per 1,000 women age 15-19 rose from 96 per 1,000 women in 1973 to a high of 111 per 1,000 women in 1980 and 1981. The rate fell to 108 per 1,000 women in 1983, the most recent year for which teenage pregnancy rates are currently available. Thus, according to AGI estimates, approximately 11 percent of the adolescent population (age 15-19) experienced a pregnancy in 1983. Pregnancy rates for the youngest teens (those age 14 and under) have also increased since the early 1970s. Table 5 shows the changes in the number of pregnancies and pregnancy rates from 1973 to 1983.

TABLE 5.—SELECTED DATA ON TEENAGE PREGNANCY

	Number of pregnancies		Pregnancy rate per 1,000 women	
	Age 14 and under	Age 15 to 19	Age 14 and under	Age 15 to 19
1973	28,230	980,600	13.5	96.2
1983	29,000	1,022,370	16.2	108.1

Source: Estimates of number of pregnancies and pregnancy rates from Alan Guttmacher Institute. Pregnancy rate for 14 and under based on population of women aged 14.

Recently, researchers at CDC have synthesized data from NCHS, the Bureau of Census and their own surveys on pregnancy outcomes. Although CDC estimates of teenage pregnancy rates have been consistently lower than AGI estimates (due largely to differences in the estimated number of abortions), CDC fertility trends have remained consistent overall with AGI and NCHS. In addition, CDC reported a steady decline in the pregnancy rate of those adolescent females who have had sexual intercourse. The CDC data disclosed a 12 percent drop in the pregnancy rate of sexually experienced teenagers from 1974 to 1983. CDC's estimated pregnancy rates for sexually experienced adolescents were 204.5 per 1,000 in 1974, 192.8 in 1980 and 181.2 in 1983.

STATISTICAL TRENDS IN TEENAGE CHILDBEARING

In contrast to the increases in the teenage pregnancy rates, data from the NCHS indicate that the teenage birth rate (for those age 15-19) has been falling since the mid-1950s to a low of 51 per 1,000 women in 1984 and 1985. The portion of adolescents giving birth represented about 5 percent of the teen population age 15-19 in those years. Birth rates for the youngest teens (age 14 and under), however, have remained relatively stable since the early 1970s, at about 1 per 1,000 women of that age (or about 0.1 percent of that population). The difference between the teen pregnancy and birth rates is primarily due to the use of abortion. Data from AGI indicate that the estimated abortion rate for teens age 15–19 increased from 19 per 1,000 women in 1972 to about 43 per 1,000 from 1980–1982. The rate fell slightly to 42 per 1,000 in 1983.

A trend that is often overlooked is the rate of births to adolescent fathers: Adolescent fatherhood has remained at a steady rate while fatherhood for men of all ages has dropped dramatically. Specifically, the birth rates by age of father 15 to 19 was 18.1 per 1,000 in 1952 and 18.1 per 1,000 in 1986. In contrast, the birth rate by age of father 15 to 54 was 94.6 per 1,000 in 1952 and 54.9 per 1,000 in 1986, a decline of approximately 42 percent.

Table 6 details birth rate trends and racial differences in birth rates of young women. Between the early 1960's and 1976, the birth rates of both white and black women ages 15 to 19 declined significantly. As table 6 shows, the birth rate of white women ages 15 to 19 fell from 79.4 (births per 1,000 women in the age group) in 1960 to 44.1 in 1976, representing an average annual decline in the birth rate of 3.6 percent. The birth rate of black women ages 15 to 19 fell from 147.6 in 1964 (the earliest year for which data are available) to 104.9 in 1976, representing an average annual decline of 2.8 percent (the birth rate of white women declined at an average annual rate of 3 percent over this same 1964 to 1976 period).

Although the birth rates of both blacks and whites ages 15 to 19 continued to decline after 1976, the decline was considerably slower than it was over the 1960 to 1976 period, and slower for whites than for blacks. The birth rate of young white women fell from 44.1 in 1976 to 41.8 in 1986. The birth rate of black women fell from 104.9 in 1976 to 98.1 in 1986.

Table 7 provides birth rate data broken down by marital status and race of the mother. This table illustrates that decreasing birth rates of young women are driven largely by the decreasing birth rates of married young women. In absolute terms, the birth rates of married women ages 15 to 19 fell dramatically in the 1970's, while the number of births and birth rates of unmarried women fell less dramatically among blacks and actually increased among whites.

From these aggregate data, one cannot conclude why the birth rate for young unmarried women has not decreased. The rate of births to unmarried women depends not only on the rate of conception out of wedlock (which depends on sexual activity and contraceptive practice), but also on the use of abortion and prenatal marriage rates (the classification of a birth as in or out of wedlock depends on the marital status of the mother at the time of birth, not at the time of conception).

Data on the number and percent of children conceived out of wedlock whose mothers marry sometime before giving birth are not available on an annual basis. However, some information is available from special surveys and analyses and is presented in table 8. This table shows that between the two periods 1959–1962 and 1975–1978, the percent of premaritally conceived children whose 15- to 17-year-old mothers married before giving birth fell from 16 percent to 5 percent for black women, and from 70 percent to 56 percent for white women. For women ages 18 and 19, the trend downward was even sharper. Thirty-four percent of all children conceived out of wedlock among black women in this age group were born in wedlock in the 1959–1962 period, compared to 11 percent in 1975–1978; 73 percent of all children conceived out of wedlock among white women in this age group were born in wedlock in the 1959–1962 period, compared to 60 percent in 1975–1978.

TABLE 6.—NUMBER OF BIRTHS AND BIRTH RATES TO WOMEN AGES 15 TO 19, 1960 TO 1986

Year	Number of births, all women under 20		Birth rate [1]					
			All women 15 to 19		15 to 17		18 to 19	
	White	Black	White	Black	White	Black	White	Black
1960			79.4					
1961			79.2					
1962			73.2					
1963			68.2					
1964			63.4	147.6				
1965			60.6	144.6				
1966			60.4	142.7	26.6	97.9	108.2	219.2
1967			56.9	141.8	25.7	99.5	104.0	213.4
1968			54.9	138.7	25.6	98.2	100.5	206.1
1969	437,958	168,588	54.7	137.0	26.4	96.9	99.2	202.5
1970	467,928	179,100	57.4	147.7	29.2	101.4	101.5	204.9
1971	450,856	178,948	53.6	134.5	28.5	99.4	92.3	192.6
1972	438,559	179,712	51.0	129.8	29.3	99.5	84.3	179.5
1973	429,570	176,551	49.0	123.1	29.2	96.0	79.3	166.6
1974	425,205	171,721	47.9	116.5	28.7	90.0	77.3	158.7
1975	415,202	168,359	46.4	111.8	28.0	85.6	74.0	152.4
1976	389,329	160,597	44.1	104.9	26.3	80.3	70.2	142.5
1977	396,854	161,772	44.1	104.7	26.1	79.6	70.5	142.9
1978	384,572	157,069	42.9	100.9	24.9	75.0	69.4	139.7
1979	388,209	158,944	43.7	101.7	24.7	75.7	71.0	140.4
1980	392,229	156,146	44.7	100.0	25.2	73.6	72.1	138.8
1981	373,983	148,703	44.6	97.1	25.1	70.6	71.9	135.9
1982	362,101	145,929	44.6	97.0	25.2	71.2	70.8	133.3
1983	342,183	142,105	43.6	95.5	24.8	70.1	68.3	130.4
1984	320,953	134,392	42.5	95.7	23.9	69.7	68.1	132.0
1985	322,826	140,130	42.8	97.4	24.0	69.8	70.1	137.1
1986	315,335	141,806	41.8	98.1	23.4	70.0	69.8	141.0

[1] Births per 1,000 women in the age group.

Sources: U.S. National Center for Health Statistics. Vital Statistics of the United States, 1979: Natality. Table 1–6. U.S.C. National Center for Health Statistics. Monthly Vital Statistics Report: Advance Report of Final Natality Statistics. 1982, 1983, 1984, 1985, and 1986, Table 4.

As a result of the decreasing birth rate for young married women and the increasing birth rate for young unmarried women, a greater proportion of all births to young women are premarital. This has occurred even though, as shown above, the overall number of births to young women and the overall birth rate for young women have declined. Table 9 presents the latest data available, for 1986.

TABLE 7.—ESTIMATED BIRTH RATES FOR MARRIED AND UNMARRIED WOMEN AGES 15–19, BY RACE: 1966 TO 1986

[Births per 1,000 women]

Year	Marital status, race, and age					
	Married		Unmarried			
	White, 15 to 19	Black, 15 to 19	White		Black	
			15 to 17	18 to 19	15 to 17	18 to 19
1966	438.8		5.4	14.1		
1967	424.1		5.6	15.3		
1968	422.0		6.2	16.6		
1969	423.1	514.6	6.6	16.6	72.0	128.4
1970	431.8	533.3	7.5	17.5	77.9	136.4
1971	403.4	511.7	7.4	15.8	80.9	136.3
1972	364.1	500.0	8.1	15.1	83.1	129.8
1973	330.6	453.7	8.5	15.0	81.9	123.0
1974	320.1	372.4	8.9	15.4	79.4	124.9
1975	311.8	329.8	9.7	16.6	77.8	126.8
1976	306.4	319.2	9.9	17.0	74.6	121.8
1977	307.6	345.7	10.7	18.8	74.3	125.9
1978	321.8	368.6	10.5	19.5	70.3	124.3
1979	337.6	333.8	11.1	21.2	72.5	128.8
1980	348.6	360.2	11.8	23.6	69.5	120.2
1981	332.9	380.7	12.4	24.6	66.9	117.6
1982			12.9	25.1	67.6	115.8
1983			13.5	26.1	67.1	114.0
1984			13.5	27.6	66.8	116.2
1985			14.2	30.9	67.0	121.1
1986			14.6	33.2	67.4	125.0

Sources: U.S. National Center for Health Statistics, Vital Statistics of the United States, 1979: Natality, 1–32 and 1–33. And U.S. National Center for Health Statistics Monthly Vital Statistics Report: Advance Report of Final Natality Statistics, 1982, 1983, 1984, 1985, and 1986, Table 19.

TABLE 8.—PERCENT OF CHILDREN CONCEIVED OUT OF WEDLOCK WHO ARE BORN IN WEDLOCK TO WOMEN AGES 15 TO 17 AND 18 TO 19, 1959–78 [1]

	Percent of premaritally conceived births by race and age of mother			
	White		Black	
	15 to 17	18 to 19	15 to 17	18 to 19
1959 to 1962	69.8	72.7	16.0	33.6
1963 to 1966	64.3	75.8	18.4	37.1
1967 to 1970	62.9	75.9	21.3	32.3
1971 to 1974	52.9	74.4	15.1	20.2
1975 to 1978	55.8	60.4	4.9	10.7

[1] Includes first births only.

Source: O'Connell, Martin and Maurice J. Moore. The Legitimacy Status of First Births to U.S. Women Aged 15 to 24, 1939–1978. Family Planning Perspectives, vol. 12, No. 1. January–February, p. 18.

TABLE 9.—PERCENT OF ALL LIVE BIRTHS OCCURRING OUTSIDE MARRIAGE, BY AGE OF MOTHER AND RACE OF CHILD, 1986

Age of mother	All races	White	Black
15 to 19 years	60.8	48.1	90.0
15 years	85.7	75.4	97.9
16 years	76.8	64.9	96.4
17 years	67.4	55.6	93.4
18 years	59.1	47.0	89.1
19 years	49.4	37.5	83.3
20 to 24 years	28.7	19.6	66.1

Source: National Center for Health Statistics, Monthly Vital Statistics Report, Vol. 37, No. 3, Supplement, July 12, 1988, table 18.

PRENATAL CARE [4]

Trends.—A panel of specialists reported to the National Institute of Medicine in October 1988 that the consumption of medical care by pregnant women, which improved steadily from 1969 to 1980, has worsened since 1981. Table 10 shows that there was steady improvement from 1969 thorugh 1980 in the percentage of births to mothers receiving prenatal care "early" (in the first trimester of pregnancy). Since 1980, however, this percentage has remained stable or decreased. Among black women, declines in early use of prenatal care were registered in 1981, 1982 and 1985. Table 10, which also displays rates of late or no care (care received in the last trimester or not at all), reveals another troubling trend. Since 1980 there has been an increase in the percentage of births to women with late or no prenatal care. Although this trend applies to all races, the increase is more pronounced among black women.

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[4] This subsection draws heavily from "Prenatal Care: Reaching Mothers, Reaching Infants," Sara S. Brown, editor, Institute of Medicine, National Academy Press, 1988.

Note that these data do not break out the Hispanic population. As noted below, Hispanic women are at relatively great risk of obtaining insufficient prenatal care. The vast majority (95 percent) of Hispanic births are listed as being of white race on the birth certificate; thus, Hispanic data, when not reported separately, is subsumed mostly in the statistics which apply for whites.

Current patterns of use.— According to 1985 birth certificate data for the 50 States and the District of Columbia, 76.2 percent of all infants were born to women who obtained early prenatal care, 18.1 percent to women who delayed care, 4.0 percent to women who obtained late care, and 1.7 percent to mothers who had no prenatal care at all. In absolute numbers, of the approximately 3.8 million babies born in the United States in 1985, about 2.8 million were born to women who began prenatal care early in pregnancy, about 663,000 to women who delayed care, some 150,000 to women who obtained late care, and about 61,000 to women who had no prenatal care at all.

TABLE 10.—PERCENTAGE OF BABIES BORN TO WOMEN OBTAINING EARLY CARE, OR LATE OR NO CARE, BY RACE, 1969–85

Year	Percent born to women obtaining early care			Percent born to women obtaining late or no care		
	White	Black	Total	White	Black	Total
1969	72.4	42.7	68.5	6.3	18.2	7.3
1970	72.4	44.3	67.9	6.2	16.6	7.9
1971	73.0	46.6	68.6	5.8	14.6	7.2
1972	73.6	49.0	69.4	5.5	13.2	7.0
1973	74.9	51.4	70.8	5.4	12.4	6.7
1974	75.9	53.9	72.1	5.0	11.4	6.2
1975	75.9	55.8	72.3	5.0	10.5	6.0
1976	76.8	57.7	73.5	4.8	9.9	5.7
1977	77.3	59.0	74.1	4.7	9.6	5.6
1978	78.2	60.2	74.9	4.5	9.3	5.4
1979	79.1	61.6	75.9	4.3	8.9	5.1
1980	79.3	62.7	76.3	4.3	8.8	5.1
1981	79.4	62.4	76.3	4.3	9.1	5.2
1982	79.3	61.5	76.1	4.5	9.6	5.5
1983	79.4	61.5	76.2	4.6	9.7	5.6
1984	79.6	62.2	76.5	4.7	9.6	5.6
1985	79.4	61.8	76.2	4.7	10.0	5.7

Source: Published and unpublished vital statistics data from the National Center for Health Statistics.

Subgroup differences.—Racial disparities in the use of prenatal care are substantial. In 1985, black women were far less likely than white women to begin care early and twice as likely to receive late or no care (see table 10). When the population is further aggregated by race, data show that Hispanic mothers are substantially less likely than non-Hispanic mothers to begin prenatal care early and are three times as likely to obtain late or no care. Moreover, Hispanic mothers as a group are more likely than non-Hispanic black mothers to begin care late or not at all.

Timing of entry into prenatal care also varies with the age of the mother. In general, young mothers are at high risk of obtaining late or no prenatal care, with the greatest risk for the youngest mothers. Older mothers, much as teenagers, tend to delay entry into prenatal care. Mothers age 40 and over are less likely than mothers age 25 to 39 to begin care in the first trimester and more likely to obtain care late or not at all. As is the case for very young teenagers, however, the number of births to older mothers is small.

Timing of the first prenatal visit correlates highly with level of education. In 1985, 88 percent of mothers with at least some college education began care early in pregnancy, compared with 58 percent of mothers who had less than a high school education. Similarly, the probability that a pregnant woman will obtain care late or not at all decreases steadily as her education level increases.

Obtaining late or no prenatal care is also associated with birth order. In general, the more children a woman has had, the more likely she is to delay care or seek none at all. In 1985, close to 5 percent of both first and second children were born to mothers who obtained late or no care. About 6 percent of third births fell into this category, however, and the numbers increased to 9 and 14 percent for fourth and fifth children, respectively.

Married pregnant women are more likely to obtain sufficient prenatal care than unmarried pregnant women. This relationship holds true among women with the same racial or ethnic group and with similar levels of education. Unmarried mothers are more than three times as likely as married mothers to obtain late or no prenatal care. This correlation of unmarried status with insufficient prenatal care has become more important in recent years as childbearing among unmarried women has increased.

Data on the relationship of income to prenatal care use are available from the 1980 National Natality Survey (NNS) and the 1982 National Survey of Family Growth (NSFG). Extensive analysis of NNS data by Singh et al. has yielded the following findings: only 66 percent of women with incomes less than 150 percent of the Federal poverty level initiated prenatal care in the first trimester, compared with 85 percent of women with incomes equal to or greater than 250 percent of the poverty level; women with incomes below 150 percent of the poverty level were almost three times as likely as women with incomes equal to or above 250 percent of the poverty level to obtain late or no care; and poor non-Hispanic black and poor non-Hispanic white mothers (again, poverty being income less than 150 percent of the poverty level) were equally likely to obtain inadequate care. Similarly, an analysis of NSFG data found that only 50.4 percent of mothers living below the Federal poverty level, as compared with 73.6 percent of nonpoor mothers, began care in the first trimester of pregnancy.

Relationships among demographic risk factors.—To assess the comparative importance of selected demographic factors in predicting use of prenatal care, researchers constructed estimates of relative risk for late or no prenatal care for various groups.

The question is posed: Compared with the reference group, how many times more likely is group X to obtain late or no prenatal care? As shown in table 11, unmarried women had the greatest relative risk of late or no care. Teenagers, women with less than a high school education, Hispanic women, and women with incomes less than 150 percent of the Federal poverty level also faced substantially greater risks.

TABLE 11.—NUMBER OF MOTHERS OBTAINING LATE OR NO PRENATAL CARE AND RELATIVE RISK, REFERENCE GROUP, SELECTED SUBGROUPS, AND TOTAL POPULATION, UNITED STATES, 1980

Subgroup	Number (thousands)	Relative risk
Reference group—married, white, nonpoor [1]		[2] 1.0
Age:		
Under 20	55	4.3
20 to 24	61	2.0
25 and over	53	1.3
Race/ethnic origin:		
Black (non-Hispanic)	39	3.1
White (non-Hispanic)	104	1.6
Hispanic	26	4.0
Marital status:		
Married	90	1.4
Unmarried	79	5.1
Residence:		
Metropolitan	108	2.0
Nonmetropolitan	61	2.2
Education (years):		
Less than 12	77	4.0
12	65	1.7
13 or more	27	1.0
Income (percent of poverty level):		
Less than 150	100	3.7
150 to 249	22	1.1
250 or more	47	1.3
Total	169	2.0

[1] An income of 150 percent of the poverty level or more is considered nonpoor.

[2] Risk of 1.0 for the reference group represents a level of inadequate care of 2 percent (with inadequate care defined as care in the third trimester or no care). For each other subgroup, risk is computed by dividing the proportion in that subgroup receiving inadequate care by the proportion in the reference group receiving comparable care.

Source: Singh S, Torres D, and Forrest JD. The need for prenatal care in the United States: Evidence from the 1980 National Natality Survey. Fam. Plan. Perspect. 17:122–123, 1985, tables 5 and 6. Reprinted with permission of the Alan Guttmacher Institute.

INFANT MORTALITY

Table 12 provides infant mortality data across all races between 1950 and 1985. The rate has steadily declined in the United States.

As table 13 shows, however, the infant mortality rate in the United States does not compare favorably to the rate in many other countries.

Infant mortality rates vary dramatically by race in the United States. As noted in the previous subsection, data for Hispanics, unless specifically broken out, is mostly subsumed in the data for whites. In every region of the country, the black infant mortality rate is at least 60 percent higher than the white rate (see table 14). Overall, the black rate is almost double the white rate. Ten States have black infant mortality rates (average annual 1983–85) above 19.0: District of Columbia (23.1), Michigan (23.0), Illinois (22.2), South Carolina (21.1), Pennsylvania (20.9), Delaware (20.8), Connecticut (19.9), Tennessee (19.8), Virginia (19.6), Mississippi (19.5), Georgia (19.1), and Kentucky (19.0).

TABLE 12.—INFANT MORTALITY RATES,[1] ALL RACES: UNITED STATES, SELECTED YEARS 1950–1985

Year	Total	Neonatal		Post-neonatal
		Under 28 days	Under 7 days	
1950 [2]	29.2	20.5	17.8	8.7
1960 [2]	26.0	18.7	16.7	7.3
1970	20.0	15.1	13.6	4.9
1975	16.1	11.6	10.0	4.5
1980	12.6	8.5	7.1	4.1
1981	11.9	8.0	6.7	3.9
1982	11.5	7.7	6.4	3.8
1983	11.2	7.3	6.1	3.9
1984	10.8	7.0	5.9	3.8
1985	10.6	7.0	5.8	3.7

[1] Infant mortality rate is the number of deaths of infants under 1 year per 1,000 live births. Neonatal deaths occur within 28 days of birth; postneonatal deaths occur 28–365 days after birth. Deaths within 7 days are early neonatal dealths.

[2] Includes births and deaths of nonresidents of the United States.

Sources: National Center for Health Statistics: Vital Statistics of the United States, vol. II, Mortality, part A, 1950–82. Public Health Service. Washington. U.S. Government Printing Office. 1983–85, to be published; Annual summary of births, marriages, divorces, and deaths, United States, 1984. Monthly Vital Statistics Report. vol. 33, No. 13. DHHS Pub. No. (PHS) 85–1120. Sept. 26, 1985; Annual summary of births, marriages, divorces, and deaths, United States, 1985. Monthly Vital Statistics Report. vol. 34, No. 13. DHHS Pub. No. (PHS) 86–1120. Sept. 19, 1986; Annual summary of births, marriages, divorces, and deaths, United States. 1986. Monthly Vital Statistics Report. vol. 35, No. 13, DHHS Pub. No. (PHS) 87–1120. Aug. 24, 1987. Public Health Service. Hyattsville, Md.; Data computed by the Division of Analysis from data compiled by the Division of Vital Statistics.

TABLE 13.—INFANT MORTALITY RATES, SELECTED COUNTRIES, 1979 AND 1984

[Infant deaths per 1,000 live births]

Country	Infant mortality rate	
	1979	1984 [1]
Japan	7.9	6.0
Sweden	7.5	6.4
Finland	7.7	6.5
Switzerland	8.5	7.5
Denmark	8.8	7.7
France	10.0	8.2
Netherlands	8.7	8.3
Norway	8.8	8.3
Canada	10.9	8.5
Singapore	13.2	8.8
Australia	11.4	9.2
Federal Republic of Germany	13.5	9.6
United Kingdom	12.9	9.6
Spain	12.8	9.7
German Democratic Republic	12.9	10.0
Belgium	11.2	10.7
United States	13.1	10.8
Austria	14.7	11.4
Italy	15.3	11.6
New Zealand	12.6	11.6
Israel	15.9	12.8
Greece [2]	18.7	14.1
Cuba	19.3	15.0
Czechoslovakia	17.7	15.3
Bulgaria	19.8	16.1

[1] Data for Switzerland, Canada, and Spain are for 1983; 1984 data for France, Belgium, and Cuba are provisional.

[2] Registration coverage estimated to be less than 90 percent complete.

Notes: Rankings are from lowest to highest infant mortality rates based on the latest data available for countries or geographic areas with at least 1 million population and with "complete" counts of live births and infant deaths as indicated in the United Nations Demographic Yearbook, 1985.

Sources: United Nations: Demographic Yearbook, 1981 and 1985. Pub. Nos. ST/ESA/STAT/SER.R/11 and ST/ESA/STAT/SER.R/15. New York. United Nations, 1983 and 1987; National Center for Health Statistics: Advance report of final mortality statistics, 1984. Monthly Vital Statistics Report. vol. 35, No. 6, Supp. 2, DHHS pub. No. (PHS) 86-1120. Public Health Service. Hyattsville, Md., Sept. 26, 1986; Vital Statistics of the United States, vol. II, Mortality, part A, 1979. Public Health Service. Washington. U.S. Government Printing Office; for 1984, Public Health Service. To be published.

TABLE 14.—INFANT MORTALITY RATES, ACCORDING TO RACE AND GEOGRAPHIC DIVISION: UNITED STATES, AVERAGE ANNUAL 1983–85

Geographic division	All races, 1983–85	White, 1983–85	Black, 1983–85
United States	10.9	9.5	18.6
New England	9.4	8.8	18.4
Middle Atlantic	11.0	9.5	18.1
East North Central	11.2	9.5	20.9
West North Central	9.7	9.1	17.3
South Atlantic	12.3	9.7	19.3
East South Atlantic	12.6	10.2	19.1
West South Central	10.9	9.8	16.7
Mountain	9.8	9.6	15.3
Pacific	9.7	9.4	16.3

Source: National Center for Health Statistics Data computed by the Division of Analysis from data compiled by the Division of Vital Statistics.

LABOR FORCE PARTICIPATION OF MOTHERS [5]

Trends in the labor force participation of mothers

A person is defined as participating in the labor force if he or she is working or seeking work. Table 15 shows the labor force participation rates of women with children for selected years between 1947 and 1987, by age of the mother's youngest child. In 1947, just following World War II, nearly 70 percent of all mothers with children between the ages of 6 and 17 were outside the labor force. Today, over 70 percent of such mothers are labor force participants. The increased labor force participation of mothers with younger children has also been dramatic. In 1947, it was unusual to find mothers with a preschool-age child in the labor force (only about 12 percent of all mothers with children under the age of 6 were in the labor force at that time). Today it is the norm. In 1987, nearly 60 percent of mothers with preschool-age children were in the labor force, a rate between 4 and 5 times higher than in 1947. Women with infant children have become increasingly engaged in the labor market as well. Today, over half of all mothers whose youngest child is under age 2 are in the labor market, while in 1975 less than one-third of all such mothers were labor force participants.

Single mothers with children represent a greater share of all families with children today than in the past; they also represent a larger share of the labor force today than ever before. Compared to married mothers with children, the labor force participation of single mothers (especially divorced mothers) has always been high. Nonetheless, the labor force participation of single mothers with preschool-age children has generally continued to increase over recent years (see table 16). Married mothers with young children have especially increased their labor involvement in recent years, with rates of labor force participation approaching, and in some cases exceeding, those of single mothers.

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[5] This section borrows heavily from a CRS report to Congress entitled "Child Day Care: Patterns of Use Among Families With Preschool Children," by Thomas Gabe and Sharon Stephan, December 19, 1988, and a Department of Commerce report entitled "Women in the Work Force," Bureau Series P-23, No. 146, November 1986.

TABLE 15.—LABOR FORCE PARTICIPATION RATES OF WOMEN, BY PRESENCE AND AGE OF YOUNGEST CHILD, SELECTED YEARS, 1947–87

	No children under 18	With children under age 18				
		Total	Age 6 to 17 only	Under age 6		
				Total	Under 3	Under 2
April 1947	29.8	18.6	27.3	12.0	N/A	N/A
April 1950	31.4	21.6	32.8	13.6	N/A	N/A
April 1955	33.9	27.0	38.4	18.2	N/A	N/A
March 1960	35.0	30.4	42.5	20.2	N/A	N/A
March 1965	36.5	35.0	45.7	25.3	21.4	N/A
March 1970	42.8	42.4	51.6	32.2	27.3	N/A
March 1975	45.1	47.3	54.8	38.8	34.1	31.5
March 1980	48.1	56.6	64.3	46.8	41.9	39.2
March 1981	48.7	58.1	65.5	48.9	44.3	42.0
March 1982	48.6	58.5	65.8	49.9	45.6	43.3
March 1983	48.7	58.9	66.3	50.5	46.0	44.5
March 1984	49.3	60.5	68.1	52.1	47.6	46.4
March 1985	50.4	62.1	69.9	53.5	49.5	48.0
March 1986	50.5	62.8	70.4	54.4	50.8	49.2
March 1987	50.5	64.7	72.0	56.7	52.9	51.9

Source: U.S. Department of Labor. Bureau of Labor Statistics. Unpublished data, courtesy of Howard Hayge.

Although the labor force is proportionately populated more by women and mothers today than in the past, today's labor force has proportionately fewer workers with children than in years past. While the representation of women and mothers in the labor force has increased over the last several decades, the proportion of the labor force, male or female, who have children residing with them at home is actually smaller today than in past years. In 1968, 44.2 percent of labor force participants had a child under age 18 living in the home, whereas only 38.5 percent had a child in 1985. However, a greater proportion of all workers with children today, than in the past, are mothers. As mothers, these workers have traditionally been the principal caretakers of their children. In addition, a greater proportion of working men with children today than in the past have a spouse who is working outside the home. In 1977, both the husband and wife worked in slightly over half (51.8 percent) of all married-couple families with children; in 1987, husbands and wives both worked in two-thirds (66.8 percent) of all such families.

TABLE 16.—LABOR FORCE PARTICIPATION RATES OF WOMEN WITH CHILDREN, BY MARITAL STATUS AND AGE OF YOUNGEST CHILD, MARCH OF SELECTED YEARS

[In percent]

	1960	1970	1980	1986	1987	1988	Percent increase, 1970–88
All women with children	[1] 30.4	[1] 52.9	56.6	62.8	64.7	65.0	22.9
Married women:							
Youngest under 6	18.6	30.3	45.0	53.8	56.8	57.1	88.4
Youngest 6 or over	39.0	49.2	61.8	68.4	70.6	72.5	47.4
Separated women:							
Youngest under 6	NA	45.4	52.2	57.4	55.1	53.0	16.7
Youngest 6 or over	NA	60.6	66.6	70.6	72.6	69.3	14.3
Divorced women:							
Youngest under 6	NA	63.3	68.3	73.8	70.5	70.1	10.7
Youngest 6 or over	NA	82.4	82.3	84.7	84.5	83.9	1.8
Never-married women:							
Youngest under 6	NA	NA	44.1	47.5	49.9	44.7	NA
Youngest 6 or over	NA	NA	67.6	65.9	64.1	67.1	NA

[1] Excludes never-married women.

Source: "The Welfare Reform Debate As It Will Confront The Next President" by Robert D. Reischauer, The Brookings Institution, February 1988. Data from the Department of Labor, Bureau of Labor Statistics, News Release USDL 88-431, September 7, 1988; Bureau of the Census, Statistical Abstract of the United States, 1987, Table 654 and Department of Labor Bulletin No. 2175, Table 56, page 125; B.L.S. News Release USDL 86-345, August 20, 1986, USDL 84-321, July 26, 1984, USDL 87-345 August 12, 1987, Table 3; and Department of Labor, BLS, Special Labor Force Report, Marital and Family Characteristics of Workers, March 1960, April 1961, Table G.

Mother's attachment to the labor force, as expressed by their labor force participation rates, and full or part-time employment rates, differ depending upon the age of their youngest child and marital status, as tables 17 and 18 show.

Table 17 provides a detailed breakdown of the labor force participation of women for March of 1988, by marital status and the age of the youngest child. Among those with children under 18, divorced women have the highest labor force participation rates, followed by married and separated women. Widowed and never-married women have lower labor force participation rates.

As this table illustrates, no matter what the marital status of the woman, labor force participation rates tend to increase as the age of the youngest child increases. For example, among all women with children under 18, 53 percent of those with a child under 3 participate, 62 percent of those whose youngest child is between 3 and 5 participate, and 73 percent of those whose youngest child is between 6 and 17 participate.

TABLE 17.—LABOR FORCE PARTICIPATION RATES OF WOMEN WITH CHILDREN UNDER 18, MARCH 1988, BY MARITAL STATUS AND AGE OF YOUNGEST CHILD

	Age of youngest child						
	Under 3	Under 6	Under 18	3 to 5	6 to 13	6 to 17	14 to 17
All women with child under 18	52.5	56.1	65.0	61.4	72.7	73.3	74.5
Married, spouse present	54.5	57.1	65.0	61.2	72.2	72.5	73.0
Divorced	62.8	70.1	80.1	73.7	82.3	83.9	87.1
Separated	48.6	53.0	61.7	58.9	68.1	69.3	72.2
Widowed	(1)	43.8	59.5	43.8	53.5	62.5	71.8
Never-married	40.1	44.7	51.6	53.9	63.6	67.1	60.8

[1] Data not shown where base is less than 75,000.

Source: Department of Labor, Bureau of Labor Statistics, USDL 88–431, September 7, 1988.

While there has been a substantial increase in the proportion of mothers in the labor force, the data can be misleading. Although 65 percent of mothers participated in the labor force in 1986, as table 18 shows, 44 percent worked full time, 16 percent worked part time, and 5 percent were actively seeking a job. (Full time work is defined as 35 or more hours per week; part time work is defined as 34 hours or less.) Thirty-six percent of mothers with children under age 6 worked full time, and 18 percent worked part time.

Note that even these numbers can be misleading. "Full time" means full time for any period during the calendar year, and not necessarily full time for the full year. "Part time" means anything from a few hours a week during the Christmas season up to 34 hours a week year round. Only 29 percent of married mothers worked full time for a full year in 1986. An additional 8 percent of them worked full time 27 to 49 weeks a year; 7 percent worked full time from 1 to 26 weeks a year (these data do not appear in the table).

As table 18 demonstrates, how much mothers work differs according to their marital status and the age of their children. Forty-three percent of married women with children worked full time; thus, close to 60 percent either didn't work at all or worked part-time. Some 66 percent of all divorced mothers worked full time; 54 percent of divorced mothers with children under 6 worked full time. Only 32 percent of never-married mothers worked full time, and only 8 percent worked part time.

TABLE 18.—FULL- OR PART-TIME [1] EMPLOYMENT STATUS OF MOTHERS BY MARITAL STATUS AND AGE OF YOUNGEST CHILD, MARCH 1988

[In percent]

	With children under 18	With children under 6
All mothers:		
Employed full time	44	36
Employed part time	16	16
Married, spouse present:		
Employed full time	43	36
Employed part time	19	18
Divorced:		
Employed full time	66	54
Employed part time	9	9
Never married:		
Employed full time	32	26
Employed part time	8	7

[1] Full-time workers work 35 hours or more per week, part-time workers work 1 to 34 hours a week.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 19 presents data for 1977, 1982 and 1987 on the percent of children under 18 with a mother in the labor force, by various family types. In 1987, 60 percent of all children under 18 had a mother in the labor force, compared with 48 percent in 1977. Of all children under age 6, 53 percent had a mother in the labor force in 1987, compared with 38 percent in 1977.

TABLE 19.—PERCENT OF OWN CHILDREN UNDER 18 YEARS OLD WITH A MOTHER IN THE LABOR FORCE, BY FAMILY TYPE, MARCH 1977, 1982, AND 1987

[Numbers in thousands]

Age of children and family type	1977	1982	1987
Total children under 18 years old	47.7	54.9	60.2
6 to 17 years	51.7	59.1	63.8
Under 6 years	37.6	45.8	53.1
In married-couple families	46.4	54.3	61.3
6 to 17 years	50.5	58.7	65.1
Under 6 years	36.6	45.5	54.4
In families maintained by woman	58.4	62.7	63.5
6 to 17 years	62.4	66.8	67.8
Under 6 years	45.7	51.2	53.0

Source: Bureau of Labor Statistics.

CHILD CARE

Because of the huge increase in the number of employed mothers, child care has become an important issue. As noted in the previous subsection, the majority of all children now have a mother who works either full- or part-time, or is actively seeking work. This section presents data on the child care arrangements of children under age 15 with working mothers, presents data on the numbers and types of childcare facilities, presents data on employers' child care practices and policies, and describes the federal role in child care.

PRIMARY CHILD CARE ARRANGEMENTS BY MARITAL AND EARNINGS STATUS OF THE MOTHER [6]

"Primary child care arrangement" refers to the arrangement used most frequently during a typical work week. Table 20 shows the distribution of the primary child care arrangements provided for preschoolers (children under 5 years old) and grade-school-age children (5 to 14 years old) during the winter of 1984–85, by marital and work status of the employed mother.

This table illustrates that of the 8.2 million preschool-age children of working women, 23 percent received organized care in day care centers or preschools most of the time their mothers were at work. The remainder were primarily supervised by relatives (48 percent) or a family day care provider (22 percent). About 75 percent of the 18.3 million grade school children were in school most of the hours their mothers were at work. An additional 16 percent were cared for by relatives.

Considerably different patterns of child care usage are also noted depending on the weekly work schedule and marital status of the mother, as table 20 shows.

SECONDARY CHILD CARE ARRANGEMENTS

"Secondary child care arrangement" refers to the arrangement used second most frequently during a typical work week. Almost 7 million children, or 26 percent of all children under age 15, use a secondary child care arrangement. Secondary child care arrangements are used by 32 percent of school-age children 5 to 14 years old, but by only 13 percent of children under 5 years. The usage of secondary child care arrangements by school age children of mothers employed full-time is about three times (41 percent) that of children whose mothers are employed part-time (14 percent).

The types of secondary child care arrangements used by school-age children who are in school most of the time their mothers are at work are shown in table 21. The most frequently mentioned secondary care arrangement for older children whose mothers are employed full-time is relative care (54 percent). Another 21 percent care for themselves, while 13 percent attend family day care.

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[6] This and the following subsection borrow heavily from "Who's Minding the Kids? Child Care Arrangements, Winter 1984–85," U.S. Department of Commerce, Bureau of the Census, Series P-70, No. 9, May 1987. Data on the child care arrangements of working mothers are based on the Survey of Income and Program Participation (SIPP). These data were obtained for the three youngest children under 15 years old in the household. These data represent approximately 90 percent of all children under 15 years old with working mothers.

TABLE 20.—PRIMARY CHILD CARE ARRANGEMENTS OF CHILDREN UNDER 15 WITH AN EMPLOYED MOTHER, BY MARITAL AND EMPLOYMENT STATUS OF THE MOTHER, WINTER 1984–85

[Percent]

Marital status of mother and type of arrangement	Children under 5 years			Children 5 to 14 years		
	Total	Full time	Part time	Total	Full time	Part time
All marital statuses:						
Relative care [1]	47.9	39.1	62.5	16.0	13.9	19.9
Family day care [2]	22.3	27.5	13.8	2.1	2.2	1.8
Organized care [3]	23.1	28.0	15.2	2.8	3.6	1.6
School care [4]	.8	.4	1.3	75.2	76.2	73.4
Other [5]	5.9	5.0	7.3	3.8	4.1	3.2
Married, husband present:						
Relative care [1]	48.6	39.9	62.4	16.7	14.7	20.0
Family day care [2]	21.8	27.1	13.4	1.9	2.1	1.6
Organized care [3]	22.3	27.1	14.7	2.8	3.6	1.5
School care [4]	.8	.4	1.4	75.1	75.8	74.1
Other [5]	6.5	5.5	8.2	3.4	3.9	2.9
All other marital statuses: [6]						
Relative care [1]	45.2	36.2	62.8	13.7	12.3	20.3
Family day care [2]	24.4	28.8	15.9	2.6	2.3	4.0
Organized care [3]	26.7	31.4	17.6	3.1	3.3	2.6
School care [4]	.6	.5	.8	75.5	77.3	67.9
Other [5]	2.9	2.9	3.1	5.0	4.9	5.3

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[1] "Relative care" includes care in the child's home by a father or other relative, care in another home by a relative, and care provided by the mother while working at home or away from home.

[2] "Family day care" is care provided in another home by a nonrelative.

[3] "Organized care" includes day/group care centers and nursery and preschools.

[4] School care includes kindergarten and grade school.

[5] "Other" includes caring for self, and care by a nonrelative in the child's home.

[6] Includes "married, husband absent" (including separated), "widowed," "divorced," and "never-married" women.

Source: Derived from "Who's Minding the Kids? Child Care Arrangements: Winter 1984–85," U.S. Department of Commerce, Bureau of the Census, Series P–70, No. 9, May 1987.

TABLE 21.—SECONDARY CHILD CARE ARRANGEMENTS FOR CHILDREN 5 TO 14 WHO ARE IN SCHOOL MOST OF THE TIME WHILE THEIR MOTHERS ARE AT WORK, WINTER 1984–85

[Percent]

Type of child care arrangement	Total	Employed full time	Employed part time
Number of children (in thousands)	5,037	4,320	716
Relative care [1]	55.7	54.1	66.1
Family day care [2]	12.8	12.5	14.8
Organized care [3]	6.8	7.7	1.3
School care [4]	0.8	0.9	0.0
Child cares for self	20.0	21.3	12.3
Other [5]	3.8	3.5	5.4

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[1] "Relative care" includes care in the child's home by a father or other relavite, care in another home by a relative, and care provided by the mother while working at home or away from home.

[2] "Family day care" is care provided in another home by a nonrelative.

[3] "Organized care" includes day/group care centers and nursery and preschools.

[4] School care includes kindergarten and grade school.

[5] "Other" includes care by a nonrelative in the child's home.

Source: "Who's Minding the Kids? Child Care Arrangements: Winter 1984–85," U.S. Department of Commerce, Bureau of the Census, Series P–70, No. 9, May 1987.

VARIATION IN USE OF AND EXPENDITURES ON CHILD CARE BY LEVEL OF ECONOMIC WELL BEING

TABLE 22.—PRIMARY CHILD CARE ARRANGEMENT OF YOUNGEST PRESCHOOL-AGE CHILD FOR FAMILIES IN WHICH THE MOTHER WORKS, BY RATIO OF FAMILY INCOME TO THE POVERTY THRESHOLD, WINTER 1984–85

	Total	Ratio of family income to the poverty threshold				
		Less than 1.00	1.00 to 1.99	2.00 to 2.99	3.00 to 3.99	4.00 and above
All mother-present families:						
Total (number in 1,000s)	6,311	552	1,528	1,760	1,031	1,440
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Relative care [1]	38.4	47.8	50.5	40.2	30.6	25.5
Family day care	22.9	21.5	14.6	22.4	28.0	29.2
Organized care [2]	24.8	17.6	21.4	23.1	29.5	30.1
Other:						
At-home sitter [3]	5.5	2.6	3.1	5.3	4.7	10.1
Mother's care [4]	8.3	10.6	10.4	9.0	7.2	5.1
Maried-couple families:						
Total (number in 1,000s)	5,089	221	1,050	1,468	987	1,364
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Relative care [1]	38.2	50.2	55.5	40.1	31.2	25.6
Family day care	22.3	11.8	12.1	21.7	27.5	28.7
Organized care [2]	23.9	13.5	15.2	22.8	28.8	30.0
Other:						
At-home sitter [3]	6.2	4.1	3.7	5.0	4.9	10.6
Mother's care [4]	9.5	20.6	13.5	10.3	7.5	5.0
Single female-headed families:						
Total (number in 1,000s)	1,222	331	478	292	44	76
Percent	100.0	100.0	100.0	100.0	NA	NA
Relative care [1]	39.8	46.2	39.5	40.6	NA	NA
Family day care	25.4	28.0	20.1	25.9	NA	NA
Organized care [2]	28.5	20.3	35.0	24.0	NA	NA
Other:						
At-home sitter [3]	2.8	1.6	1.9	6.8	NA	NA
Mother's care [4]	3.4	4.0	3.5	2.7	NA	NA

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[1] Includes a small number of children who are cared for by siblings.

[2] Includes a small number of children enrolled in school.

[3] Care by a nonrelative in the child's home.

[4] The mother cares for the child while she works, either at home, or away from home at her place of employment.

NA—Estimates not available. Sample size is considered too small for reliable estimates.

Note: Details may not sum to totals due to rounding. Data reflect primary child care arrangements used by families for their youngest preschool age child (children under age 5) when the mother works. Mothers' employment status is based on the month preceding the survey. Family income to poverty ratios are based upon families' incomes for the month prior to the interview, compared to families' poverty thresholds. Monthly poverty estimates overstate official annual estimates, somewhat.

Source: Derived from table prepared by the Congressional Research Service (CRS). Estimates are based on data from the Survey of Income and Program Participation (SIPP) Wave V, covering the winter of 1984–85.

TABLE 23.—EMPLOYMENT STATUS AND USE OF PAID CHILD CARE, BY MOTHERS WITH A PRESCHOOL-AGE CHILD, BY THE RATIO OF FAMILY INCOME TO THE POVERTY THRESHOLD AND FAMILY TYPE, WINTER 1984–85

Family type and ratio of family income to the poverty threshold	Percent working	Percent of those working paying cash for child care
All mother-present families:		
Total	48.6	57.2
Less than 1.00	19.9	41.9
1.0 to 1.99	44.1	47.9
2.0 to 2.99	59.1	55.2
3.0 to 3.99	60.7	64.5
4.0 and over	68.9	70.1
Married-couple families:		
Total	50.3	55.9
Less than 1.00	19.4	26.5
1.0 to 1.99	38.4	41.1
2.0 to 2.99	55.9	52.7
3.0 to 3.99	61.7	63.6
4.0 and over	67.7	69.9
Single female-headed families:		
Total	42.3	62.4
Less than 1.00	20.3	52.2
1.0 to 1.99	65.6	62.6
2.0 to 2.99	83.2	67.7
3.0 to 3.99	NA	NA
4.0 and over	NA	NA

NA—Estimates not available. Sample size is considered too small for reliable estimates.

Note: Estimates of the number of families purchasing child care are for those families in which the mother worked and that had a child of preschool age (under age 5) in a primary or secondary child care arrangement in which payment is possible (child cared for by someone other than a parent or sibling). Estimates are for only those families that spent money on child care. Mothers' employment status is based on the month preceding the survey. Family income to poverty ratios are based upon families' incomes for the month prior to the interview, compared to families' poverty thresholds. Monthly poverty estimates overstate official annual estimates, somewhat.

Source: Table prepared by the Congressional Research Service (CRS). Estimates are based on data from the Survey of Income and Program Participation (SIPP) Wave V, covering the winter of 1984–85.

TABLE 24.—TYPICAL WEEKLY AMOUNT SPENT ON CHILD CARE FOR MOTHER-PRESENT FAMILIES WITH PRESCHOOL-AGE CHILDREN WHO SPENT MONEY ON CHILD CARE, BY RATIO OF FAMILY INCOME TO THE POVERTY THRESHOLD AND BY FAMILY TYPE

Ratio of family income to poverty	Number of families (in 1,000s)	Dollars spent			Percent of mother's earnings			Percent of family income		
		Bottom quartile	Median	Top quartile	Bottom quartile	Median	Top quartile	Bottom quartile	Median	Top quartile
A. By ratio of family income to the poverty threshold:										
Total	3,607	$25	$40	$50	11.4	15.7	22.9	4.3	6.2	10.0
Less than 1.00	231	20	25	35	18.8	28.6	46.7	11.1	19.9	34.5
1.00 to 1.99	731	20	35	45	13.1	17.8	26.7	6.6	10.4	13.9
2.00 to 2.99	971	25	38	50	12.5	17.4	26.4	5.0	6.9	9.9
3.00 to 3.99	664	30	40	50	10.9	14.6	21.3	4.2	5.6	7.5
4.00 and over	1,008	35	50	70	9.2	12.9	17.4	3.2	4.4	6.0
B. By family type:										
All mother-present families	3,607	25	40	50	11.4	15.7	22.9	4.3	6.2	10.0
Married-couple families	2,844	28	40	55	11.2	15.4	22.9	4.0	5.6	8.3
Single female-headed families	763	25	35	50	12.3	16.7	23.1	6.6	12.0	17.0

Note: Data reflect typical weekly amount spent on child care by families in which the mother worked and that have a child of preschool age (under age 5) who is in a primary or secondary child care arrangement in which payment is possible (child cared for by someone other than a parent or sibling). Estimates are for only those families that spent money on child care. Estimates are for the total amount spent by families on child care, not just for the care of the youngest preschool age child. Mothers' employment status is based on the month preceding the survey. Family income to poverty ratios are based upon families' incomes for the month prior to the interview, compared to families' poverty thresholds. Monthly poverty estimates overstate official annual estimates, somwhat.

Source: Table prepared by the Congressional Research Service (CRS). Estimates are based on data from the Survey of Income and Program Participation (SIPP) Wave V, covering the winter of 1984–85.

CHILD CARE FACILITIES [7]

There are no comprehensive national data on the number, types, or quality of child day care facilities in the United States. A 1986 survey of *licensed* child care centers identified 40,000 such centers operating in the United States, with an estimated capacity of 2.1 million children. Estimates of the number of family homes that provide child day care services vary. The National Association for the Education of Young Children (NAEYC) identified 105,417 *regulated* family day care homes operating in 1986 (of a total of 165,000 regulated homes). A 1987 survey by the Children's Foundation identified 198,344 *regulated* family day care providers. It is generally assumed that the number of regulated family day care providers represents a small percentage of the total number of such providers (some estimates place it at less than 10 percent). It is estimated that each family provider serves an average of four children. Thus, the estimated number of children who could be served in the identified regulated family settings might range from approximately 422,000 to 793,000. Altogether, these data indicate that there were fewer than 3 million *regulated* child care slots identified in 1986–87 (or less than half the number of children under age 6 with mothers in the labor force). However, the number of regulated facilities is probably far below the total number of day care facilities in operation. Moreover, a large proportion of families with preschool-age children rely on care provided by relatives which is not reflected in the counts of regulated slots.

EMPLOYER CHILD CARE PRACTICES [8] [9]

As table 25 indicates, about 2 percent, or 25,000, of the Nation's establishments (both private industry and government) with 10 employees or more sponsor day care centers for their workers' children. Three percent, or 35,000 establishments provide financial assistance to be used specifically for child care. Overall, 11 percent of these establishments provide some specific benefits or services to workers for their child care arrangements. In addition to sponsoring centers or providing financial assistance, these services include counseling, referral, and the provision of information about local child care.

Child care practices vary with the size of the establishment. As table 25 shows, among those establishments with 250 employees or more, about 5 percent actually sponsor day care centers and 9 percent assist their employees with child care expenses. Much smaller proportions of medium-sized firms (50 to 249 employees) and small-sized firms (10 to 49 employees) provide such benefits. Altogether, 32 percent of the largest establishments, compared with only 9 percent of the smallest, provide some child care benefits or services.

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[7] From "Child Day Care: Funding Under Selected Federal Programs," by Susan Schillmoeller and Sharon Stephan, Congressional Research Service, November 1, 1988.

[8] This subsection borrows heavily from "BLS Reports on Employer Child-Care Practices," Bureau of Labor Statistics, U.S. Department of Labor, USDL 88-7, January 15, 1988.

[9] For more information on specific Federal Government programs for Federal employees, see "Child Day Care: Funding Under Selected Programs," by Susan Schillmoeller and Sharon Stephan, CRS, November 1, 1988.

As table 25 also indicates, government agencies are much more likely than firms in private industry to sponsor child care, even if one controls for the size of the establishment. Overall, about 9 percent of government offices (including Federal, State, and local agencies) actually sponsor day care centers for their workers' children. Among private firms, the comparable proportion was less than 2 percent. Government agencies are also much more likely to provide their employees with child care information, referral and counseling services. Overall, private firms are equally as likely as government agencies to assist their employees with child care expenses (3.1 percent and 2.9 percent, respectively). However, if one controls for the size of the establishment, medium- and large-sized private firms are roughly twice as likely to assist with child care expenses.

TABLE 25.—TYPE OF CHILD-CARE BENEFITS PROVIDED BY ESTABLISHMENTS WITH 10 EMPLOYEES OR MORE, BY TYPE AND SIZE OF ESTABLISHMENT, SUMMER 1987

Type of establishment and child care benefits	Establishments with 10 employees or more			
	Total	10 to 49 employees	50 to 249 employees	250 employees or more
Total establishments (thousands)	1,202	919	236	47
Percent providing child-care benefits or services	11.1	9.0	15.3	31.8
Employer-sponsored day care	2.1	1.9	2.2	5.2
Assisted with child-care expenses	3.1	2.4	4.7	8.9
Child-care information and referral services	5.1	4.3	6.3	14.0
Counseling services	5.1	3.8	7.6	17.1
Other child-care benefits	1.0	.7	1.6	2.9
Private sector establishments (thousands)	1,128	879	213	36
Percent providing child-care benefits or services	10.1	8.3	14.1	31.6
Employer-sponsored day care	1.6	1.5	1.8	2.7
Assisted with child-care expenses	3.1	2.4	4.9	10.3
Child-care information and referral services	4.3	3.6	5.5	14.6
Counseling services	4.2	3.1	6.5	17.0
Other child-care benefits	.9	.7	1.5	2.7
Government establishments (thousands)	74	40	23	11
Percent providing child-care benefits or services	26.4	24.1	27.2	32.7
Employer-sponsored day care	9.4	10.2	6.1	13.2
Assisted with child-care expenses	2.9	2.5	2.8	4.3
Child-care information and referral services	15.8	17.9	14.1	12.0
Counseling services	18.2	18.6	17.9	17.4
Other child-care benefits	2.3	1.5	2.9	3.7

THE FEDERAL ROLE [10]

There is no comprehensive Federal policy directing the provision or funding of child care services. Rather, the role of the Federal Government in this area is primarily to provide funding for day care through a variety of programs, most of which also fund other services.

Federal child care programs can be grouped into nine general categories, as follows: general day care programs, day care for work, education or training; early childhood development services; day care for specified groups of children; training for day care workers; support for employers; day care programs for Federal employees, and assistance for day care providers.

The largest category of programs includes those that provide day care assistance so that parents can work or obtain education or training. Slightly more than half of the programs are aimed at low-income or otherwise disadvantaged groups. However, the largest single source of Federal support for child care services is the child and dependent care tax credit which is not currently available to the lowest income families.

In many cases, the Federal funding for child care services provided under these programs is unknown or estimated. Estimates of the total Federal costs for child care programs range from $6.2 billion to $6.9 billion annually in recent years. The total number of children receiving day care services under these programs is unknown.

General day care programs

—The Social Services Block Grant Program is authorized under title XX of the Social Security Act and provides grants to States for activities determined by the States to be appropriate social services. Typical activities include child care. The fiscal year 1988 appropriation for all title XX services was $2.7 billion. Estimated outlays specifically for the day care component were $660 million for fiscal year 1988. See section 10 of part 1 for a more complete description of title XX.

—Other federal support of general day care programs includes support for child welfare services under title IV-B of the Social Security Act (outlays for fiscal year 1988 on the child care component are not available) and support for services through the Community Development Block Grant Program under the Housing and Community Development Act (child care outlays for fiscal year 1988 estimated at $30.3 million).

Day care for work, education, and training

—The child and dependent care tax credit, authorized under section 21 of the Internal Revenue Code, provides the largest federal support in the area of child care. The support is indirect, available to taxpayers who work or are seeking work, in the form of a nonrefundable tax credit. It is indexed according to both income and number of dependents, and is applicable to a limited amount of employment-related child care expenses. The estimated revenue loss for this tax credit in 1988 was $3.9 billion. See part 1, section 12, for a more complete description of this tax credit.

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[10] This section borrows heavily from "Child Day Care: Funding Under Selected Federal Programs," by Susan Schillmoeller and Sharon Stephan, CRS, November 1, 1988.

—Section 129 of the Internal Revenue Code, as amended by the Tax Reform Act of 1986, allows employees with children under age 15 or disabled dependents or spouses to exclude from their gross income qualified employment-related dependent care assistance paid for or provided by their employers. The estimated tax revenue loss for fiscal year 1988 equaled $65 million.

—The Food Stamp program allows recipients to deduct up to $160 a month per household for dependent care expenses related to work, education and training. During the summer of 1985, 129,000 households (1.8 percent of all households receiving food stamps) claimed the dependent care deduction. The average amount claimed was $88 per month. Total child care related outlays equaled $50.2 million (estimate) in fiscal year 1988.

—The AFDC program, authorized under the Social Security Act, requires that States deduct child or dependent care expenses (up to $160 a month per child) from the earned income of a working family in determining the assistance level. In 1986, 1.5 percent of AFDC families (about 56,000 families) deducted child or dependent care expenses from their earned income. The average deduction was $106. Total Federal outlays were estimated at $40 million for fiscal year 1988. Pursuant to the Family Support Act of 1988, effective October 1, 1989, States are required to deduct child or dependent care expenses up to $175 per month per child age 2 or more, and up to $200 per month per child less than age 2.

—Under title II of the Perkins Act, child care services may be provided to students in vocational education programs either as a support service or to make the programs more accessible. A rough estimate of outlays under this program equaled $1.4 million for fiscal year 1988.

—Students may receive assistance for child care beginning in fiscal year 1988 through deductions to income in the various federal grant and loan programs administered by the Department of Education and authorized under the Higher Education Act Amendments of 1986.

—The WIN program (authorized under title IV–C of the Social Security Act), requires States to provide child care services for those who need them in order to participate in employment or training activities under WIN. Data on outlays for child care under the WIN program in 1988 are not available. Pursuant to the Family Support Act of 1988, the JOBS program will replace the WIN program effective October 1, 1990. The JOBS program also requires that States guarantee child care to the extent it is necessary for employment, or for education and training activities, and provide "transitional" child care assistance to families who cease to receive public assistance because of work or earnings.

—Under the United States Housing Act of 1937, as amended by the Housing and Community Development Act of 1987, child care expenses, to the extent they are necessary to enable a family member to work or go to school, may be deducted in determining adjusted income under the Public Housing and Section 8 housing programs. It is estimated that less than 2 percent of families in public housing use the child care deduction and that less than 2 percent of families participating in the Section 8 program use the child care deduction. Estimated outlays in fiscal year 1988 for day care under these two programs equaled $18 million.

—The JTPA program (authorized under title II–A of the Job Training Partnership Act of 1982) allows up to 15 percent of funds to be spent on supportive services. At local discretion, individuals may be trained as child care workers or chid care may be provided as a supportive service to participants in training. Roughly 1 percent of participants were provided with child care during program year 1986. Estimated outlays under JTPA for the child care component equaled $6.1 million for fiscal year 1988.

—Public Housing Child Care Demonstration Grants, authorized through fiscal year 1989 under the Housing and Community Development Act of 1987, are available to nonprofit organizations to provide child care services for low-income families who live in public housing. Federal appropriations equaled $5 million for fiscal year 1988.

Early childhood development services

—The Head Start Program, authorized through fiscal year 1990, under authority of the Human Services Reauthorization Act of 1986, provides Federal matching funds to Head Start agencies for services that help improve the social and learning skills and the nutrition and health status of low-income children before they start school. The fiscal year 1988 appropriation for Head Start was $1.2 billion, to serve an estimated 454,000 children.

—The Child Care Food Program, authorized under section 17 of the National School Lunch Act, provides funds and commodities to States for meals served to children in public and private nonprofit day care centers, family group and day care homes, and Head Start centers. Estimated appropriations for fiscal year 1988 equaled $607.1 million. In fiscal year 1987, 1.3 million children participated daily during the peak month of participation.

—In addition, three new programs were authorized under the Augustus F. Hawkins-Robert T. Stafford Elementary and Secondary School Improvement Amendments of 1988 for fiscal years 1989 through 1993. These include a program to provide grants for up to 30 comprehensive child development centers, an Even Start program to provide grants for the joint education of young disadvantaged children and their parents, and a program to provide grants to Native Hawaiian organizations to operate a minimum of 11 family-based education centers in Hawaii.

Other programs

- —Two federal programs work to provide day care for specified groups of chlidren. One, the dependent care planning and development program, authorized under the Human Services Reauthorization Act of 1986, authorizes 75 percent matching grants to States for dependent care services before and after school and for establishing or expanding local resource and referral systems (fiscal year 1988 appropriations equaled $8.4 million). Temporary Child Care for Handicapped Children and Crisis Nursuries (authorized under title II of the Children's Justice Act), authorizes 75 percent federal matching grants to States to provide temporary care for handicapped children and children with chronic illnesses, and crisis nurseries and referrals for abused and neglected children (fiscal year 1988 appropriations equaled $4.8 million).
- —The Federal Government also operates several programs which seek to train day care workers, support employers, and assist providers (Child Development Associate (CDA) scholarships, tax deductions for child care as a business expense, guaranteed loans for small businesses (section 7(A) loans), and tax exemptions for nonprofit organizations).

INCOME SOURCES OF FAMILIES WITH CHILDREN [11]

FEMALE-HEADED FAMILIES WITH CHILDREN

Tables 26 through 29 present data on the income sources which families with children relied upon for economic support in 1986. Tables 26 and 27 describe sources for female-headed families with no husband present; tables 28 and 29 describe the sources of income upon which male-present families rely.

Table 26 shows that the percent of female-headed families receiving income from earnings (wages, salaries, self-employment and farm income), alimony or child support, interest and dividends, and Social Security tends to increase as total income increases above the poverty threshold. In turn, families below the poverty threshold are more likely to receive public cash assistance, presumably AFDC, and food stamps—a form of near-cash assistance.

Nearly half (47 percent) of all poor female-headed families with children had income from earnings. As table 27 shows, on average earnings accounted for about 25 cents of every dollar of income received. Seventy percent of poor female-headed families between 75 and 100 percent of poverty had income from earnings; for these families, earnings accounted for 41 percent of total income. In contrast, 97 percent of nonpoor female-headed families had earnings which on average accounted for 81 percent of total income.

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[11] Please see Appendix H for similar income source data related specifically to the elderly. See Appendix I for data on trends in income and income inequality for families with children and other families.

TABLE 26.—PERCENT OF FEMALE-HEADED FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1987

	Ratio of total income to poverty threshold								Poor	Nonpoor	Total
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Number of families (in thousands)	1,752	1,017	774	543	458	794	1,123	1,096	3,543	4,013	7,556
Earnings	34.6	51.7	69.8	89.6	93.2	96.5	99.0	99.3	47.2	96.7	73.5
OASDI, railroad retirement	6.1	14.5	17.9	17.1	20.5	15.4	12.9	18.7	11.1	16.4	13.9
Pensions	.5	1.4	1.9	1.9	3.1	3.0	6.1	7.0	1.1	4.8	3.1
Unemployment compensation, workers compensation, veterans payments	3.6	7.5	8.4	9.8	9.6	8.4	12.9	9.0	5.8	10.2	8.1
AFDC, SSI, general assistance	66.6	69.2	51.8	32.2	16.0	13.1	4.5	3.2	64.1	10.9	35.8
Child support, alimony	21.7	27.2	34.3	40.9	38.4	41.4	44.0	51.1	26.0	44.4	35.8
Interest, dividends	8.5	9.3	16.1	24.2	32.6	40.6	55.3	80.4	10.4	52.4	32.7
Food Stamps	69.2	74.4	55.0	30.6	13.0	7.6	3.7	.3	67.6	8.2	36.1
Housing assistance	35.4	29.0	26.6	18.9	11.7	11.0	4.5	.5	31.6	7.5	18.8
Family characteristics:											
Percent never-married	39.5	34.8	29.9	20.6	16.6	17.4	13.8	9.0	36.0	14.4	24.6
Percent with head age 15 to 19	3.8	1.6	.9	.4	.7	.4	.4	.3	2.5	.4	1.4
Percent with head age 20 to 29	39.7	33.7	33.3	25.3	24.7	25.0	16.1	7.3	36.6	17.7	26.6
Percent with head 30 and over	56.5	64.6	65.8	74.3	74.5	74.7	83.5	92.4	60.9	81.9	72.1
Percent white non-Hispanic [2]	40.6	39.3	52.3	54.9	61.6	63.6	67.7	75.7	42.7	66.7	55.5
Percent black non-Hispanic	45.9	40.0	35.5	34.1	26.9	25.3	25.2	18.6	41.9	24.8	32.8
Percent Hispanic	13.6	20.7	12.2	11.0	11.5	11.0	7.2	5.7	15.3	8.5	11.7

[1] Based on census ("Orshansky") poverty levels.

[2] Includes "other races."

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 27.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD FOR FEMALE-HEADED FAMILIES WITH CHILDREN, 1987 [1]

	Ratio of total income to poverty threshold								Poor	Nonpoor	Total
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	11.5	24.7	41.2	65.4	72.7	79.8	83.4	83.2	25.0	80.9	69.5
OASDI, railroad retirement	2.6	7.1	10.3	7.3	8.9	6.0	4.0	2.9	6.5	4.3	4.7
Pensions	.2	.3	.4	.4	.5	.4	1.1	1.6	.3	1.2	1.0
Unemployment compensation, workers compensation, veterans payments	.9	1.4	1.0	1.1	1.2	1.4	1.6	.6	1.1	1.0	1.1
AFDC, SSI, general assistance	39.0	40.1	28.4	10.8	5.5	2.9	.9	.3	36.1	1.8	8.8
Child support, alimony	5.2	4.7	6.7	9.0	8.1	7.4	6.7	7.0	5.5	7.1	6.8
Interest, dividends	.4	.4	.2	1.2	1.3	.9	1.9	4.5	.3	2.9	2.3
Food stamps [2]	27.8	14.5	6.7	2.4	.8	.3	.2	.0	17.0	.3	3.7
Housing assistance [2]	12.4	6.9	5.0	2.4	1.1	.8	.3	.0	8.3	.4	2.0
Mean income per family member [3]	$1,429	$2,363	$3,032	$3,599	$4,296	$5,556	$7,797	$13,769	$2,027	$7,913	$5,009
Mean family size	3.5	3.4	3.2	3.3	3.2	3.0	3.0	3.0	3.4	3.1	3.2
Percent with 50 percent or more of family income from cash public assistance	67.0	50.6	32.5	7.4	1.1	.8	.2	....	54.7	1.4	26.4
Percent with 90 percent or more of family income from cash public assistance	46.9	31.5	13.5	1.4	....	....	....	....	35.2	.2	16.6

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash value of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

[3] Includes cash value of food stamps and housing assistance.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

It is interesting to note that nonpoor female-headed families were almost twice as likely as poor female-headed families to receive child support or alimony—44 percent compared to 26 percent. For both poor and nonpoor female-headed families, child support on average accounted for roughly the same percentage share of total income.

Cash public assistance, mostly AFDC, was the most common source of cash income received by poor female-headed families with children. Approximately 64 percent of these families received cash public assistance which, on average, accounted for about 36 cents of every dollar received.

Food stamps, although not cash income, were an important source of income to poor female-headed families.[12] Nearly 70 percent received food stamps at some time during the year. For each dollar of cash income received, food stamps, on average, accounted for 17 cents.

MALE-PRESENT FAMILIES WITH CHILDREN

Among poor male-present families (mostly married couple families) with children, earnings were on average the most common source and the largest component of total income (see tables 28 and 29). Some 78 percent of all such families had income from earnings, which accounted for 62 cents of every dollar received. Thirteen percent of poor male-present families received income from either unemployment compensation, workers' compensation, or veterans' payments, and these sources accounted for 3 cents of every dollar received. Twenty-seven percent of poor families headed by a male received cash public assistance, which, on average, accounted for 14 cents of each dollar these families received.

Poor male-present families were much less likely than female-headed families to receive food stamps. Only 42 percent of poor male-present families received food stamps, compared with 68 percent of female-headed families.

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[12] The cash value of food stamps was not included as part of total income for purposes of determining poverty status, but was included as part of total income for calculating the percentage share of total income.

TABLE 28.—PERCENT OF MALE-PRESENT FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1987

	Ratio of total income to poverty threshold								Poor	Nonpoor	Total
	Under 0.50	0.50 to 0.74	075 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Number of families (in thousands)	696	708	833	983	1,158	2,681	5,824	13,963	2,237	24,610	26,846
Earnings	62.4	82.8	86.3	94.8	98.1	98.3	99.6	99.9	77.7	99.3	97.5
OASDI, railroad retirement	6.1	11.1	14.0	10.5	7.7	7.6	5.3	4.4	10.6	5.4	5.8
Pensions	.5	2.4	4.2	2.9	3.2	3.9	4.1	4.7	2.5	4.3	4.2
Unemployment compensation, workers compensation, veterans payments	8.6	13.0	16.2	20.1	17.3	18.8	17.1	10.3	12.8	13.6	13.5
AFDC, SSI, general assistance	30.1	33.5	19.4	11.8	6.3	5.0	2.3	.8	27.2	2.3	4.4
Child support, alimony	7.9	10.7	12.9	11.7	11.9	14.4	13.7	13.9	10.7	13.7	13.5
Interest, dividends	17.5	21.7	26.6	33.6	42.1	46.5	63.9	83.0	22.2	70.6	66.6
Food stamps	45.8	49.1	32.3	19.7	8.9	5.3	1.2	.2	41.8	2.2	5.5
Housing assistance	11.7	11.7	5.7	4.2	3.7	2.7	1.3	.2	9.5	1.0	1.7
Family characteristics:											
Percent with head age 15 to 19	2.2	1.8	.9	.4	.3	.4	.1	.0	1.6	.1	.2
Percent with head age 20 to 29	26.0	30.6	25.9	32.5	28.7	25.1	19.4	11.1	27.4	16.3	17.2
Percent with head age 30 and over	71.8	67.6	73.2	67.1	71.0	74.5	80.4	88.9	71.0	83.6	82.5
Percent white non-Hispanic [2]	62.5	59.8	59.7	65.7	72.8	74.8	82.0	89.2	60.6	84.2	82.2
Percent black non-Hispanic	16.6	16.7	15.5	15.8	11.4	13.4	9.1	6.2	16.2	8.3	8.9
Percent Hispanic	20.9	23.4	24.8	18.5	15.9	11.8	8.9	4.6	23.2	7.5	8.8

[1] Based on census ("Orshansky") poverty levels.

[2] Includes "other" races.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 29.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR MALE-PRESENT FAMILIES WITH CHILDREN: 1987

	Ratio of total income to poverty threshold								Poor	Nonpoor	Total
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	42.9	58.3	70.8	83.1	88.7	90.4	93.5	93.5	62.0	93.1	92.6
OASDI, railroad retirement	3.3	6.0	8.6	4.6	2.8	2.6	1.2	.5	6.9	.8	.9
Pensions	.2	1.2	.9	.9	1.0	1.1	1.0	.8	.9	.8	.8
Unemployment compensation, workers compensation, veterans payments	2.8	2.8	3.1	3.6	3.0	2.3	1.4	.5	3.0	.8	.8
AFDC, SSI, general assistance	21.8	17.1	8.5	3.0	1.0	.7	.2	.0	13.5	.2	.4
Child support, alimony	1.5	2.1	2.8	1.8	1.4	1.4	1.0	.7	2.4	.8	.8
Interest, dividends	1.2	1.2	.8	1.3	1.5	1.2	1.6	4.0	1.0	3.4	3.3
Food stamps [2]	21.9	9.2	3.8	1.4	.4	.2	.0	.0	8.5	.0	.2
Housing assistance [2]	4.5	2.1	.7	.4	.2	.1	.1	.0	1.8	.0	.1
Mean income per family member [3]	$873	$1,936	$2,533	$3,174	$3,873	$4,947	$7,077	$14,581	$1,824	$10,567	$9,752
Mean family size	4.6	4.7	4.6	4.5	4.4	4.3	4.3	3.9	4.6	4.1	4.1

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[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. For calculating the percentage share of total income. Cash values of food stamps and housing assistance are included in total income.

[3] Includes cash value of food stamps and housing assistance.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TRENDS IN DEMOGRAPHIC CHARACTERISTICS AND INCOME COMPOSITION OF FAMILIES WITH CHILDREN

Female-headed families with children

Table 30 shows how the demographic characteristics of female-headed families and the composition of their incomes have changed between 1979 and 1987. The number of female-headed families who are poor has increased from 2.45 million in 1979 to 3.54 million in 1987, accounting for almost 1.1 million of the 1.37 million increase in the total number of female-headed families. The percent of all such households in which the head has never been married has increased for both poor and nonpoor families. In 1979, 26 percent of females heading poor families were never-married; by 1987, this had jumped to 36 percent. For all families, the percentage of never-married heads increased from 17 to 25. The percentage of female-headed Hispanic families has also increased for both poor and nonpoor families, with a total increase from 8 to 12 percent.

A change in the composition of income of nonpoor families is evident in that only 11 percent of nonpoor families are receiving AFDC, SSI, or general assistance as part of their income in 1987, whereas 18 percent were receiving such benefits in 1979. Child support and alimony are received by 26 percent of poor female-headed families in 1987, as compared to 19 percent in 1979. For poor families, both the percentage of families receiving food stamps and the percent of total income food stamps represent has remained relatively constant. However, the percentage of nonpoor families receiving food stamps has decreased substantially, from 17 percent in 1979 to 8 percent in 1987. A larger percentage of poor families are receiving housing assistance—32 percent in 1987 compared with 22 percent in 1979—but there is only a minor increase, from 8.0 percent to 8.3 percent in the percentage of total income housing assistance represents for these families. For the entire population of female-headed families, governmental benefits represented 24 percent of total income in 1979, and 20 percent of total income in 1987.

Male-present families with children

Table 31 shows the similar data for families in which there is a male present. As with female-headed families, the percentage of male-present Hispanic families has increased significantly from 1979 to 1987. In particular, the percentage of poor male-present Hispanic families has grown from 16 percent in 1979 to 23 percent in 1987. The percentage of poor male-present families receiving pensions from OASDI or railroad retirement has decreased from 14 in 1979 to 11 in 1987. As a percent of total income, OASDI and railroad retirement decreased from 8 to 7 percent over this same time period. Although the unemployment rate remained relatively constant from 1979 to 1987, the percent of all male-present families receiving income from unemployment or workers compensation, or veterans payments decreased from 17 percent in 1979 to 13 percent in 1987. For poor male-present families, this resulted in a decrease in the total income from these sources, from 4.5 percent in 1979 to 3.0 percent in 1987.

TABLE 30.—TRENDS IN DEMOGRAPHIC CHARACTERISTICS AND INCOME COMPOSITION OF FEMALE-HEADED FAMILIES WITH CHILDREN

	Poor [1]		Nonpoor [1]		Total	
	1979	1987	1979	1987	1979	1987
Number of families (in thousands)	2,458	3,543	3,729	4,013	6,187	7,556
Family Characteristics:						
Percent never-married	26.0	36.0	10.2	14.4	16.5	24.6
Percent with head age 15 to 19	3.9	2.5	.4	.4	1.8	1.4
Percent with head age 20 to 29	36.4	36.6	21.7	17.7	27.6	26.6
Percent with head 30 and over	59.6	60.9	77.8	81.9	70.6	72.1
Percent white non-Hispanic [2]	43.1	42.7	69.4	66.7	59.0	55.5
Percent black non-Hispanic	44.9	41.9	24.7	24.8	32.7	32.8
Percent Hispanic	12.0	15.3	5.9	8.5	8.3	11.7
Average family size	3.7	3.4	3.2	3.1	3.4	3.2
Percent with income from:						
Earnings	49.6	47.2	94.7	96.7	76.8	73.5
OASDI, railroad retirement	12.6	11.1	21.5	16.4	18.0	13.9
Pensions	1.1	1.1	4.4	4.8	3.0	3.1
UC and other compensation	6.3	5.8	14.9	10.2	11.5	8.1
AFDC, SSI, general assistance	65.0	64.1	18.2	10.9	36.8	35.8
Child support, alimony	18.6	26.0	44.0	44.4	33.9	35.8
Interest, dividends	13.3	10.4	53.3	52.4	37.4	32.7
Food stamps	67.2	67.6	16.6	8.2	36.7	36.1
Housing assistance	21.6	31.6	6.0	7.5	12.2	18.8
Percent of total income from:						
Earnings	24.8	25.0	74.2	80.9	64.9	69.5
OASDI, railroad retirement	5.6	6.5	6.8	4.3	6.5	4.7
Pensions	.4	.3	1.2	1.2	1.1	1.0
UC and other compensation	1.4	1.1	1.5	1.0	1.5	1.1
AFDC, SSI, general assistance	38.2	36.1	3.8	1.8	10.3	8.8
Child support, alimony	4.7	5.5	8.0	7.1	7.4	6.8
Interest, dividends	.3	.3	2.9	2.9	2.4	2.3
Food stamps [3]	16.6	17.0	.9	.3	3.9	3.7
Housing assistance [3]	8.0	8.3	.7	.4	2.1	2.0
Mean income per family member [4] (1987 dollars)	$2,094	$2,027	$6,936	$7,913	$4,850	$5,009
Percent with 50 percent or more of income from public assistance [4]	55.6	54.7	3.8	1.4	24.4	26.4
Percent with 90 percent or more of income from public assistance [4]	36.6	35.2	.8	.2	15.0	16.6

[1] Based on census ("Orshansky") poverty levels.

[2] Includes "other races."

[3] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

[4] Includes cash value of food stamps and housing assistance.

Note: Income adjusted using CPI–X1.

Source: March 1980, 1988 Current Population Surveys (CPS). Table prepared by CRS.

TABLE 31.—TRENDS IN DEMOGRAPHIC CHARACTERISTICS AND INCOME COMPOSITION OF MALE-PRESENT FAMILIES WITH CHILDREN

	Poor [1]		Nonpoor [1]		Total	
	1979	1987	1979	1987	1979	1987
Number of families (in thousands)	1,663	2,237	24,315	24,610	25,978	26,846
Family Characteristics:						
Percent with head age 15 to 19	1.1	1.6	0.3	0.1	0.4	0.2
Percent with head age 20 to 29	25.4	27.4	19.3	16.3	19.6	17.2
Percent with head 30 and over	73.6	71.0	80.4	83.6	80.0	82.5
Percent white non-Hispanic [2]	66.2	60.6	86.1	84.2	84.8	82.2
Percent black non-Hispanic	18.0	16.2	7.7	8.3	8.3	8.9
Percent Hispanic	15.8	23.2	6.2	7.5	6.8	8.8
Average family size	4.8	4.6	4.2	4.1	4.3	4.1
Percent with income from:						
Earnings	79.5	77.7	99.4	99.3	98.1	97.5
OASDI, railroad retirement	14.3	10.6	5.9	5.4	6.4	5.8
Pensions	2.1	2.5	4.1	4.3	4.0	4.2
UC and other compensation	16.8	12.8	17.2	13.6	17.2	13.5
AFDC, SSI, general assistance	24.3	27.2	3.2	2.3	4.5	4.4
Child support, alimony	7.4	10.7	11.3	13.7	11.0	13.5
Interest, dividends	26.9	22.2	72.6	70.6	69.6	66.6
Food stamps	41.8	41.8	3.5	2.2	6.0	5.5
Housing assistance	7.3	9.5	1.1	1.0	1.5	1.7
Percent of total income from:						
Earnings	61.3	62.0	93.1	93.1	92.6	92.6
OASDI, railroad retirement	8.4	6.9	1.0	.8	1.1	0.9
Pensions	.5	.9	.9	.8	.9	.8
UC and other compensation	4.5	3.0	1.0	.8	1.1	.8
AFDC, SSI, general assistance	10.9	13.5	.3	.2	.4	.4
Child support, alimony	1.5	2.4	.7	.8	.7	.8
Interest, dividends	1.1	1.0	2.8	3.4	2.8	3.3
Food stamps [3]	9.3	8.5	.1	0	.2	.2
Housing assistance [3]	2.5	1.8	.1	0	.1	.1
Mean income per family member [4] (1987 dollars)	$1,792	$1,824	$9,337	$10,567	$8,793	$9,752
Percent with 50 percent or more of income from public assistance [4]	12.5	17.7	.2	0	.9	1.5
Percent with 90 percent or more of income from public assistance [4]	5.5	9.0	0	0	.4	.8

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[1] Based on census ("Orshansky") poverty levels.

[2] Includes "other races."

[3] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

[4] Includes cash value of food stamps and housing assistance.

Note: Income adjusted using CPI–X1.

Source: March 1980, 1988 Current Population Surveys (CPS). Table prepared by CRS.

FEDERAL TAX TREATMENT OF FAMILIES IN POVERTY

LEGISLATION BEFORE 1986

In the past two decades, Congress has attempted to ensure that families in poverty do not pay Federal income taxes. These legislative efforts reflect the policy that in a progressive income tax system a family should not be liable for income tax until income exceeds the poverty threshold (as measured by the standards set by the U.S. Bureau of the Census). Tax bills enacted in 1969, 1975, 1977, and 1978 all reflect this Congressional policy.

Before 1975, the principal tools used to eliminate the Federal income tax liability of families in poverty were the standard deduction (during the years 1978 to 1986, termed the zero bracket amount) and the personal exemption. The standard deduction is a statutorily set amount of income which the taxpayer may receive with no tax liability. The personal exemption is an additional deduction "provided" for the taxpayer, the taxpayer's spouse, and each dependent. The total tax benefit of the personal exemption is thus contingent on the number of persons in the taxpayer's family.

In 1975, the Congress enacted the earned income tax credit. The credit is refundable, thus reflecting two Congressional goals: one, to remove poor families from the income tax rolls, and two, through its cash refund feature, to offset a portion of the Social Security payroll tax on the earnings of working poor families. The earned income tax credit is available only to households with dependents, and thus is explicitly designed to help low income families, rather than single individuals or married couples with no dependents. The earned income tax credit is described more fully in section 12.

Before 1985, neither the standard deduction nor the personal exemption was indexed to changes in the price level, and as a result inflation eroded the value of these tax benefits to poor households. In part to correct for this erosion of the value of the personal exemption and the standard deduction, Congress significantly reduced the taxes of the poor and enacted the earned income tax credit in 1975. Because inflation continued to erode the value of these benefits, however, the income taxes of the poor commenced to increase again after that year. Tax cut bills enacted in 1976, 1977, and 1978 abated this trend, but did not halt it. In 1985, the personal exemption and standard deduction became indexed for inflation, but by that year, despite the legislation of earlier years, the poor incurred positive tax liabilities at income levels as low, when measured in real terms, as the levels that held in 1974 before the enactment of the EITC and other tax reductions in 1975. Furthermore, because the earned income credit was not indexed, the tax burdens of families in poverty were slated to rise throughout the 1980's in the absence of offsetting legislation.

In short, the trend from the 1970's until 1986, was that inflation gradually increased the tax burdens of the poor and lowered the income level at which a poor family became liable for income tax. Legislation enacted by Congress reversed or slowed this trend, but in the absence of indexing, inflation gradually offset these legislative efforts. This trend can be measured in two ways: one measure is the degree to which the income at which a poor family begins to pay income taxes (termed the tax threshold, or alternatively, the tax entry point) exceeds or falls below that family's poverty threshold. A second measure is the actual amount of tax liability incurred by a family with income at the poverty line.

Table 32 shows the income tax threshold, the poverty level, and the tax threshold as a percent of the poverty level for a married couple with two children in selected years since 1959. These figures demonstrate that before 1974 a family of four was generally liable for Federal income tax, even though the family's income was significantly below the poverty line. In 1975, following the enactment of the earned income credit, a family of four incurred no tax liability until its income exceeded the poverty threshold by 22 percent. Over the next decade this margin eroded; by 1984, a poor family of four incurred tax liability when its income was 17 percent *below* the poverty line. In 1990, a married couple with two children has an income tax threshold of $13,600 without taking into account the EITC. For a head of household with three children, the income tax threshold with the EITC is $15,880 and $12,950 without taking into account the EITC.

Table 33 shows the income tax burden and payroll tax burden of households with incomes below the poverty line given different family sizes. This table shows that a family of four in 1978 had an income tax refund (through the earned income tax credit) of $134; this refund offset 33 percent of the family's payroll tax burden of $403. By 1986, this same family incurred a positive tax liability of $363. Combined income and payroll taxes represented 4 percent of this family's income in 1978; by 1986, combined income and payroll taxes consumed 10.4 percent of this family's income.

THE TAX REFORM ACT OF 1986

The Tax Reform Act of 1986 significantly altered the structure of taxes affecting the poor. As a result, poor families with children or other dependents will incur no Federal income tax liability in 1987 or thereafter, and will face a greatly reduced combined Federal income and payroll tax burden. Because the system as enacted is indexed to inflation, future increases in the Consumer Price Index will not erode these tax benefits.

The Tax Reform Act greatly expanded the level of the personal exemption for each dependent from its level of $1,080 in 1986, to $1,900 in 1987, $1,950 in 1988, and $2,000 in 1989. The standard deduction was increased to $5,000 for a married couple filing jointly and $4,400 for an unmarried head of household effective 1988. The maximum value of the earned income credit was increased, and the credit was made available to a greater number of low income families. The personal exemption is indexed after 1989, the standard deduction is indexed after 1988, and the earned income tax credit is indexed immediately.

As a result of this legislation, in 1989 a married couple with two children (i.e., a family of four) will incur no positive income tax liability until income equals $15,666. This income exceeds the poverty level for a family of four in that year by 24 percent. In 1989, a family of four with income at the poverty level will receive a net income tax refund (through the earned income tax credit) of $669;

this offsets this family's payroll tax burden in that year of $952 by 70 percent.

TABLE 32.—RELATIONSHIP BETWEEN INCOME TAX THRESHOLD AND POVERTY LEVEL FOR A FAMILY OF FOUR, 1959–1991

Year	Income tax threshold	Poverty level	Tax threshold as a percent of poverty level
1959	$2,667	$2,973	89.7
1960	2,667	3,022	88.3
1965	3,000	3,223	93.1
1966	3,000	3,317	90.4
1968	3,000	3,553	84.4
1969	3,000	3,743	80.2
1970	3,600	3,968	90.7
1971	3,750	4,137	90.6
1972	4,300	4,275	100.6
1973	4,300	4,540	94.7
1974	4,300	5,038	85.4
1975	6,692	5,500	121.7
1976	6,892	5,815	118.5
1977	7,520	6,191	121.7
1978	7,533	6,662	113.1
1979	8,626	7,412	116.4
1980	8,626	8,414	102.5
1981	8,634	9,287	93.0
1982	8,727	9,862	88.5
1983	8,783	10,178	86.3
1984	8,783	10,610	82.8
1986	9,575	11,203	85.5
1987	13,288	11,611	114.4
1988 [1]	15,120	12,091	125.1
1989 [1]	15,666	12,674	123.6
1990 [1]	16,270	13,297	122.4
1991 [1]	17,062	13,900	122.7

[1] Estimated.

Note: Tax thresholds assume full use of the earned income tax credit. They are based on the schedule for a married nonelderly couple filing jointly.

TABLE 33.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1991

	Family size—					
	1	2	3	4	5	6
Poverty levels:						
1978	$3,311	$4,249	$5,201	$6,662	$7,880	$8,891
1982	4,900	6,280	7,690	9,862	11,680	13,210
1983	5,061	6,483	7,938	10,178	12,049	13,630
1984	5,277	6,759	8,276	10,610	12,562	14,211
1986	5,572	7,138	8,737	11,203	13,259	14,986
1987	5,778	7,397	9,056	11,611	13,737	15,509
1988 [3]	6,107	7,703	9,431	12,091	14,305	16,151
1989 [3]	6,307	8,074	9,885	12,674	14,995	16,929
1990 [3]	6,617	8,471	10,371	13,297	15,732	17,762
1991 [3]	6,917	8,856	10,842	13,900	16,446	18,567
Income tax threshold: [1]						
1978	3,200	5,200	6,930	7,520	8,183	9,167
1982	3,300	5,400	8,237	8,727	9,216	9,706
1983–84	3,300	5,400	8,315	8,783	9,251	9,719
1986	3,560	5,830	9,063	9,575	10,086	10,598
1987	4,440	7,560	12,192	13,288	14,283	15,278
1988 [3]	4,950	8,900	13,950	15,120	16,290	17,460
1989 [3]	5,100	9,200	14,466	15,666	16,866	18,066
1990 [3]	5,250	9,500	15,040	16,270	17,500	18,730
1991 [3]	5,500	9,950	15,772	17,062	18,352	19,642
Income tax at poverty level: [1]						
1978	16	0	−280	−134	−12	0
1982	202	106	−134	285	417	491
1983	209	118	−89	319	432	509
1984	226	149	−9	364	478	569
1986	230	144	−76	363	480	564
1987	147	0	−635	−352	−113	54
1988 [3]	160	0	−875	−651	−429	−245
1989 [3]	181	0	−911	−669	−437	−244
1990 [3]	215	0	−953	−698	−442	−242
1991 [3]	213	0	−1,001	−738	−477	−269
Payroll tax at poverty level:						
1978	200	257	315	403	477	538
1982	328	421	515	661	783	885
1983	339	435	532	682	808	913
1984 [2]	354	453	555	711	842	953
1986	398	510	625	801	948	1,071
1987	413	529	648	830	983	1,111
1988 [3]	452	578	708	908	1,074	1,213
1989 [3]	474	606	742	952	1,176	1,271
1990 [3]	497	636	779	999	1,181	1,334
1991 [3]	519	665	814	1,044	1,235	1,394

TABLE 33.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1991—Continued

	Family size—					
	1	2	3	4	5	6
Combined income and payroll tax at poverty level:						
1978	216	257	35	269	465	538
1982	530	527	381	946	1,200	1,376
1983	546	554	443	1,001	1,240	1,422
1984	580	602	546	1,075	1,320	1,521
1986	628	654	549	1,164	1,428	1,635
1987	560	529	12	479	869	1,164
1988 [3]	612	578	−167	257	412	792
1989 [3]	655	606	−169	283	689	1,028
1990 [3]	702	636	−175	301	740	1,092
1991 [3]	732	665	−187	306	758	1,126
Combined tax as percent of income at poverty level:						
1978	6.5	6.1	0.7	4.0	5.9	6.1
1982	10.8	8.4	5.0	9.6	10.3	10.4
1983	10.8	8.6	5.6	9.8	10.3	10.4
1984	11.0	8.9	6.5	10.1	10.5	10.7
1986	11.3	9.2	6.3	10.4	10.8	10.9
1987	9.7	7.2	.1	4.1	6.3	7.5
1988 [3]	10.2	7.5	−1.8	2.1	2.9	4.9
1989 [3]	10.4	7.5	−1.7	2.2	4.6	6.1
1990 [3]	10.6	7.5	−1.7	2.3	4.7	6.1
1991 [3]	10.6	7.5	−1.7	2.2	4.6	6.1

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[1] The table reflects assumptions that all family income consists of wages or salaries, that families of two or more include a married couple (rather than an unmarried head of household with one or more dependents), that all family members are under age 65, and that families of three or more persons are eligible for the earned income credit. For families of three or more, the effect of the earned income credit is included. Negative figures in the table reflect refundability of earned income credit.

[2] Effective payroll tax calculated as 6.7 percent for 1984 because in this year employees are allowed a payroll tax credit equal to 0.3 percent of taxable wages.

[3] Estimated.

Source: Joint Committee on Taxation.

STATE INCOME TAX THRESHOLDS AND PAYMENTS

Table 34 shows the tax thresholds for the 41 States that have a State income tax. In 1986, these thresholds, which represent the level of earnings at which a person must begin to pay State income tax ranged from $3,600 in West Virginia to $15,900 in Mississippi, with an average of $7,032. By 1988, all but 9 States had increased their income tax thresholds, most likely in response to the Tax Reform Act of 1986, which raised the Federal income tax thresholds. In 1988, the State income tax threshold ranged from $4,000 in

Illinois, Indiana, and New Jersey to $18,100 in California, with an average of $9,912. The average increase of $2,880 is substantially greater than if the thresholds had been indexed for inflation.

TABLE 34.—STATE INCOME TAX THRESHOLDS AND PAYMENTS FOR A TWO-PARENT FAMILY OF FOUR, 1986 AND 1988

State	1986 tax threshold	1988 tax threshold	Change in threshold 1986 to 1988	1988 State income tax at $10,000 of income
Alabama	$4,400	$4,400	0	$156
Arizona	8,400	8,400	0	32
Arkansas [1]	5,000	5,600	$600	130
California	14,300	18,100	3,800	0
Colorado [3]	6,200	12,800	6,600	0
Delaware	5,600	8,600	3,000	45
District of Columbia [4]	4,000	12,800	8,800	0
Georgia	6,100	9,000	2,900	10
Hawaii [2]	5,300	5,900	600	116
Idaho [3]	8,000	12,800	4,800	0
Illinois	4,000	4,000	0	150
Indiana	4,000	4,000	0	204
Iowa [1]	5,000	7,500	2,500	144
Kansas [2]	6,000	12,800	6,800	0
Kentucky	4,300	4,300	0	281
Louisiana	11,000	11,000	0	0
Maine	6,200	13,000	6,800	0
Maryland [5]	5,830	12,900	7,070	0
Massachusetts [1]	6,400	12,000	5,600	0
Michigan [2]	6,000	7,200	1,200	129
Minnesota [2] [3]	9,300	12,800	3,500	0
Mississippi	15,900	15,900	0	0
Missouri [3]	6,900	8,200	1,300	31
Montana	6,240	6,500	260	109
Nebraska [6]	8,000	12,800	4,800	0
New Jersey	4,000	4,000	0	120
New Mexico [2]	12,000	12,800	800	0
New York	10,600	14,000	3,400	0
North Carolina [2]	4,300	4,300	0	252
North Dakota [3]	8,000	12,800	4,800	0
Ohio	9,900	10,400	500	0
Oklahoma [1]	5,830	8,900	3,070	33
Oregon [2]	6,900	9,300	2,400	50
Pennsylvania [2]	5,700	8,000	2,300	211
Rhode Island [3]	9,600	15,100	5,500	0
South Carolina [3]	10,300	12,800	2,500	0
Utah	4,300	10,900	6,600	0
Vermont	8,000	15,100	7,100	0
Virginia [2] [3]	3,700	5,900	2,200	93

TABLE 34.—STATE INCOME TAX THRESHOLDS AND PAYMENTS FOR A TWO-PARENT FAMILY OF FOUR, 1986 AND 1988—Continued

State	1986 tax threshold	1988 tax threshold	Change in threshold 1986 to 1988	1988 State income tax at $10,000 of income
West Virginia	3,600	8,000	4,400	60
Wisconsin [2]	9,200	10,800	1,600	0
Average	7,032	9,912	2,880	57

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[1] This level is based on a special no-tax floor, not on the personal exemption and standard deduction. Massachusetts' $12,000 no-tax floor (for married families) and Iowa's $7,500 no-tax floor (for married couples and heads of households) became effective in 1987.

[2] These levels do not take into account nonpersonal credits low-income households normally would receive that would raise their tax threshold and reduce their tax liability.

[3] This State adopts the Federal personal exemption and standard deduction levels (except Missouri, which adopts only the Federal standard deduction, and Rhode Island, which adopts the Federal Earned Income Tax Credit along with the personal exemption and standard deduction levels).

[4] Washington, D.C. exempts from the local income tax those families that have incomes up to the combined level of the Federal Standard deduction and the Federal personal exemption. The exemption is achieved through the use of a special tax credit.

[5] Maryland established a State earned income tax credit that was designed to eliminate both State and local income taxes for low-income families of four or fewer persons that have dependent children and that have incomes at or below the poverty line.

[6] Although Nebraska's income tax is no longer a percentage of a taxpayers Federal income tax liability, the State did establish a no-tax floor for those families with incomes up to the combined level of the Federal standard deduction and the Federal personal exemptions.

Note: Calculations are for a two-parent family with two children. The 1986 figures ignore all credits (except personal credits in those States that use them instead of personal exemption) and assume that the taxpayer uses the standard deduction. The 1988 figures incorporate special credit provisions adopted by some States (e.g., Maryland, Pennsylvania, and Washington, D.C.) during the 1987 legislative sessions to reduce the income tax burdens on low-income wage earners.

Source: "The Unfinished Agenda for State Tax Reform", National Conference of State Legislatures.

COMBINED IMPACT OF AFDC, FOOD STAMPS, AND FEDERAL TAX POLICY UPON THE INCOME OF FEMALE-HEADED FAMILIES: 1960 TO 1990

This section examines the effect of AFDC, food stamps and Federal tax policy on the disposable income of female-headed families. The analysis calculates the weighted-average disposable income (weighted across States by 1980 State populations) available to female-headed families with either two or three children, at various wage levels. Disposable income includes wages, AFDC and food stamp benefits, and Federal taxes (income plus payroll). It does not include the value of health-care benefits. To make comparisons across time, wages are expressed as a given percentage (0, 50, 75, 90, 100, or 125) of the appropriate poverty threshold. Alaska and Hawaii are not included in this analysis, but the District of Columbia is included. Thus, the maximum number of States is 49. At the conclusion of this section is a complete description of the methodology.

Table 35 presents the combined AFDC and food stamp benefit level (in real 1988 dollars) for a female-headed family of four with no wages. This table covers the 29-year period from 1960 through 1988.

In real terms, weighted-average annual AFDC benefits by themselves declined 27 percent over the entire 29-year period, from $7,652 to $5,548 (see last row of table). Since 1972, real AFDC benefits have declined 31 percent, from $8,030 to $5,548. Looking only at recent years, real AFDC benefits increased between 1984 and 1987, from $5,315 to $5,635, but declined in 1988 to $5,548.

Benefits from the food stamp program, which was created in the late 1960's, have on average offset some of the decline in AFDC benefits relative to inflation. Over the entire 29-year period, the weighted average benefit from AFDC and food stamps grew 4.8 percent in real terms, from $7,652 in 1960 to $8,019 in 1988. Since 1972, however, the average annual combined benefit for this family type has declined by 21 percent, from $10,133 to $8,019. Looking only at recent years, the combined AFDC and food stamp benefit increased between 1984 and 1986, from $7,918 to $8,114, but declined in 1988 to $8,019.

The benefit level in several States (Alabama, Arkansas, Delaware, Florida, Maine, Mississippi, South Carolina, Tennessee) increased by over 50 percent in real terms from 1960 to 1988. In 20 States, total benefits (AFDC only in 1960, and food stamps plus AFDC in 1988) declined in real terms from 1960 to 1988. In 13 of these States (Idaho, Illinois, Massachusetts, Montana, New Jersey, New Mexico, New York, North and South Dakota, Ohio, Washington, Wisconsin and Wyoming), the decline was over 10 percent.

Table 36 shows the average disposable income of a mother and three children (without child care expenses) between 1972 and 1988, at wage levels equal to between 0 and 125 percent of the poverty level. Also included in this table are projections for 1990. As discussed below in the methodology section, these 1990 income projections take into account the changes embodied in the Tax Reform Act of 1986. This table illustrates that families earning 50 percent of the poverty level experienced a 22-percent decline in disposable income between 1972 and 1988. The decline for families earning 75 percent of the poverty level was 20 percent. The decline in disposable income is in part due to the loss of AFDC as an income supplement to wages. In 1972, all States paid AFDC benefits to a family with wages equal to 50 percent of the poverty threshold; by 1988, 30 States paid AFDC to such a family.

The significant increases in disposable income for 1988, particularly for wages at 75 percent or more of poverty, are due to the Tax Reform Act of 1986. Between 1986 and 1988, the Federal tax burden was reduced by over $1,000 for a mother with three children and poverty level earnings ($12,088 in 1988 dollars) (see table 36).

TABLE 35.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME

[1988 constant dollars [1]]

	1960	1964	1968	1972	1976	1980	1984	1985	1986	1987	1988	Percent change	
												1960–88	1972–88
Alabama	2,640	3,079	3,634	6,817	7,134	6,010	5,469	5,425	5,373	5,235	5,244	98.64	−23.07
Arizona	6,433	6,134	5,471	8,867	8,224	7,168	6,780	6,732	7,336	7,135	7,108	10.49	−19.84
Arkansas	3,168	3,250	3,675	7,149	7,222	6,493	5,909	6,196	6,166	6,130	6,217	96.24	−13.04
California	10,321	9,842	9,023	11,163	11,395	11,018	10,398	10,576	10,789	10,633	10,762	4.27	−3.59
Colorado	7,825	6,484	7,554	10,261	9,596	8,460	8,101	8,007	7,943	7,721	7,771	−0.69	−24.27
Connecticut	10,561	10,529	12,535	12,541	11,849	9,980	10,168	10,262	10,372	10,179	10,249	−2.95	−18.28
Delaware	4,752	6,821	7,635	8,123	9,788	7,989	7,297	7,231	7,299	7,223	7,284	53.28	−10.33
District of Columbia	7,969	7,599	7,513	10,190	10,260	8,435	7,584	7,813	8,006	7,905	8,032	0.79	−21.18
Florida	3,744	3,571	3,471	7,933	7,745	6,999	6,694	6,751	6,837	6,777	6,864	83.33	−13.48
Georgia	5,232	4,990	5,104	8,052	7,361	6.553	6,426	6,566	6,873	6.759	6,822	30.39	−15.28
Idaho	10,033	9,206	9,718	11,211	10,784	8,653	7,373	7,305	7,254	7,057	7,032	−29.91	−37.28
Illinois	9,265	8,577	11,392	10,973	10,312	8,448	7,603	7,684	7,626	7,491	7,450	−19.59	−32.11
Indiana	5,280	5,036	6,125	9,382	9,142	8,025	7,105	7,046	7,000	7,074	7,049	33.50	−24.87
Iowa	8,305	8,711	9,963	10,285	10,993	9,280	8,091	7,998	8,151	7,922	7,990	−3.79	−22.31
Kansas	8,785	8,473	9,677	12,161	11,13	8,930	8,120	8,247	8,324	8,204	8,551	−2.66	−29.69
Kentucky	6,049	6,255	7,635	8,574	8,880	7,060	6,435	6,399	6,366	6,200	6,427	6.25	−25.04
Louisiana	5,184	4,944	4,736	7,078	7,536	6,794	6,320	6,289	6,257	6,095	6,108	17.82	−13.70
Maine	5,280	5,676	5,594	8,503	9,631	8,472	8,374	8,420	8,568	8,500	8,527	61.50	0.28
Maryland	7,249	7,668	7,268	9,262	9,003	8,158	7,884	8,049	8,166	8,085	8,204	13.17	−11.43
Massachusetts	10,513	10,126	11,759	12,802	11,500	9,280	8,512	8,793	9,176	9,252	9,418	−10.42	−26.43
Michigan (Wayne)	6,721	7,324	10,044	13,087	11,814	10,270	8,302	8,636	8,777	8,942	8,670	29.00	−33.75
Minnesota	9,697	9,259	10,861	12,565	11,500	10,089	9,929	9,818	9,719	9,479	9,359	−3.49	−25.52
Mississippi	2,400	2,289	2,246	5,836	5,638	5,672	5,100	5,069	5,335	5,197	5,208	117.00	−10.76
Missouri	5,280	5,036	5,063	7,601	7,745	7,723	7,029	7,083	7,100	6,934	6,914	30.95	−9.04
Montana	9,793	9,922	9,146	9,406	9,177	8,218	8,148	8,063	7,997	7,835	7,780	−20.56	−17.29

TABLE 35.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME—Continued

[1988 constant dollars [1]]

	1960	1964	1968	1972	1976	1980	1984	1985	1986	1987	1988	Percent change	
												1960–88	1972–88
Nebraska	6,241	5,951	8,166	9,881	9,911	8,689	8,101	8,007	7,943	7,721	7,796	24.92	−21.10
Nevada	5,088	5,493	6,451	8,693	9,125	8,013	6,684	7,277	7,227	7,030	7,418	45.79	−14.67
New Hampshire	8,545	8,377	10,371	11,496	10,819	8,954	8,187	8,210	8,224	8,779	8,779	2.74	−23.63
New Jersey	11,089	11,252	13,556	12,208	10,993	9,220	8,321	8,423	8,351	8,425	8,346	−24.74	−31.63
New Mexico	8,929	8,502	7,472	8,756	8,366	7,446	7,076	7,018	6,973	6,821	6,805	−23.79	−22.28
New York (NYC)	10,897	11,703	11,351	11,947	12,146	9,968	9,656	9,628	9,805	9,518	9,749	−10.54	−18.40
North Carolina	6,385	6,970	5,880	8,289	8,269	6,758	6,196	6,612	6,574	6,523	6,587	3.16	−20.53
North Dakota	9,793	10,666	10,248	11,638	11,238	9,147	8,263	8,321	8,251	8,019	7,956	−18.76	−31.64
Ohio	8,833	6,523	7,880	9,263	9,212	8,170	7,364	7,453	7,526	7,453	7,351	−16.78	−20.64
Oklahoma	7,441	7,462	7,145	9,002	9,736	8,435	7,421	7,351	7,617	7,406	7,629	2.53	−15.25
Oregon	9,409	8,480	9,228	10,855	12,338	9,546	8,837	8,922	8,967	8,876	8,779	−6.70	−19.12
Pennsylvania	7,105	7,480	8,697	11,947	11,290	8,822	8,053	8,229	8,360	8,124	8,258	16.23	−30.88
Rhode Island	7,873	7,670	10,861	10,760	11,046	8,918	8,370	8,517	8,769	9,369	9,167	16.44	−14.80
South Carolina	3,024	3,296	3,797	6,983	6,820	6,130	6,052	6,242	6,311	6,147	6,175	104.20	−11.57
South Dakota	8,833	8,258	9,350	11,282	10,592	8,580	7,632	7,554	7,834	7,616	7,570	−14.30	−32.90
Tennessee	3,840	4,578	4,900	7,648	7,082	6,010	5,689	5,845	5,849	5,745	5,915	54.04	−22.66
Texas	4,224	4,486	4,655	8,028	7,222	5,913	5,784	5,984	6,139	5,981	5,999	42.02	−25.27
Utah	8,113	8,057	7,554	10,095	10,592	9,401	8,148	8,183	8,115	7,887	7,830	−3.49	−22.44
Vermont	6,721	6,409	10,167	12,470	11,395	10,885	10,034	10,142	9,955	9,960	10,064	49.74	−19.29
Virginia	7,105	7,439	7,799	10,712	10,208	7,904	7,708	7,915	7,852	7,634	7,586	6.77	−29.18
Washington	11,425	9,600	10,943	11,496	11,500	10,692	9,610	9,464	9,5926	9,313	9,199	−19.48	−19.98
West Virginia	5,280	5,602	6,574	7,981	9,125	7,229	6,464	7,009	6,964	6,777	6,763	28.09	−15.26
Wisconsin	10,849	10,334	9,758	11,686	12,181	10,608	10,168	10,003	10,018	9,785	9,325	−14.05	−20.20
Wyoming	9,361	9,156	8,166	9,905	9,492	8,327	7,813	7,730	7,671	7,459	7,418	−20.76	−25.11
Average	7,324	7,236	7,914	9,854	9,715	8,325	7,689	7,765	7,831	7,721	7,741	5.69	−21.44
Weighted ave	7,652	7,525	8,123	10,133	9,888	8,529	7,918	8,019	8,114	7,988	8,019	4.80	−20.86
AFDC benefits (weighted average)	7,652	7,525	8,123	8,030	7,304	6,150	5,315	5,449	5,515	5,635	5,548	−27.5	−30.9

[1] Converted to constant dollars using the CPI–U price index.

Note: For 1960, 1964, and 1968 this is only AFDC benefits. While some families may have received food stamps, the program was only operational in one-third of the counties. Only 2.2 million individuals participated in the food stamp program during fiscal year 1968.

TABLE 36.—COMPARISON OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER WITH THREE CHILDREN WITHOUT CHILD CARE EXPENSES: 1972, 1976, 1980, 1984, 1986, 1988, and 1990 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
Wages (1988 dollar equivalent)	0	6,044	9,066	12,088	15,110
Average disposable income:					
1972 (1988 dollar equivalent)	10,133	13,110	14,304	15,434	16,673
1976 (1988 dollar equivalent)	9,888	13,037	14,181	14,893	15,754
1980 (1988 dollar equivalent)	8,529	11,502	12,704	13,319	14,245
1984 (1988 dollar equivalent)	7,918	9,417	10,459	11,817	13,088
1986 (1988 dollar equivalent)	8,114	9,987	10,707	11,913	13,564
1988 (1988 dollar equivalent)	8,021	10,212	11,396	13,071	13,886
1990P (1988 dollar equivalent)	7,959	10,138	11,407	13,066	13,803
Percentage change:					
1972–1988	−20.8	−22.1	−20.3	−15.3	−16.7
1980–1988	−6.0	−11.2	−10.3	−1.9	−2.5
1984–1988	1.3	8.4	9.0	10.6	6.1
1980–1990P	−6.7	−11.9	−10.2	−1.9	−3.1
Number of States which supplement wages with AFDC:					
1972	NA	49	47	42	35
1976	NA	49	46	38	26
1980	NA	46	36	27	13
1984	NA	21	5	0	0
1986	NA	32	8	0	0
1988	NA	30	5	0	0
1990P	NA	27	6	0	0
Number of States with disposable income above poverty:					
1972	7	28	41	49	49
1976	3	35	45	49	49
1980	0	13	31	49	49
1984	0	0	0	0	49
1986	0	1	0	0	49
1988	0	1	1	49	49
1990P	0	1	1	49	49
Average tax rate (in percent):					
1972	NA	51	54	56	57
1976	NA	48	53	59	61
1980	NA	51	54	60	62
1984	NA	75	72	68	66
1988	NA	64	63	58	61

NA: Not applicable.
P: Projected based on current law.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes.

Tables 38 and 39 are analogous tables for a mother with two children; tables 40 and 41 also present disposable income calculations for a mother with two children, but child care expenses are included. Table 38 shows that mothers with earnings of $7,071, which are slightly greater than full-time earnings at the minimum wage, have had significant reductions in disposable income from 1976 to 1988 (nearly 21 percent). In 1976, this family's disposable income was greater than the poverty threshold in almost all States when AFDC and food stamp benefits were added to wages. In 1988, this happened in only 10 States. Average tax rates on earnings increased by nearly 27 percent between 1976 and 1988 at an earnings level of $7,071.

The significant feature of table 40 is the percentage of child care reimbursed by the combination of AFDC, food stamp and Federal tax policies. This assumes that child care is not directly reimbursed by title XX or a similar program, but that the day care expenses are taken into account when computing AFDC and food stamp benefits and Federal tax liability. For a mother with earnings at 75 percent of poverty, these policies combined to reimburse 95 percent of day care expenses in 1976. By 1984, the percentage reimbursed had fallen to 46 percent, primarily because the number of States supplementing wages with AFDC had fallen from 49 to 11. In 1988, the percentage reimbursed had increased to 61 percent.

TABLE 37.—COMPOSITION OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER WITH THREE CHILDREN WITHOUT CHILD CARE EXPENSES: 1972, 1980, 1984, 1986, 1988, AND 1990 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1972 (in 1988 dollars):					
Wages	0	6,044	9,066	12,088	15,110
AFDC	8,030	6,060	4,589	3,042	1,941
Food stamps	2,103	1,320	1,121	932	815
Federal taxes	0	−314	−472	−628	−1,193
Disposable income	10,133	13,110	14,304	15,434	16,673
1980 (in 1988 dollars):					
Wages	0	6,044	9,066	12,088	15,110
AFDC	6,150	3,501	2,122	1,169	555
Food stamps	2,379	1,723	1,411	944	416
Federal taxes	0	234	105	−882	−1,836
Disposable income	8,529	11,502	12,704	13,319	14,245
1984 (in 1988 dollars):					
Wages	0	6,044	9,066	12,088	15,110
AFDC	5,449	853	95	0	0
Food stamps	2,469	2,355	1,822	1,107	0
Federal taxes	0	165	−524	−1,378	−2,022
Disposable income	7,918	9,417	10,459	11,817	13,088
1986 (in 1988 dollars):					
Wages	0	6,044	9,066	12,088	15,110
AFDC	5,635	1,517	252	0	0
Food stamps	2,479	2,265	1,884	1,235	509
Federal taxes	0	161	−495	−1,410	−2,055
Disposable income	8,114	9,987	10,707	11,913	13,564
1988 (in 1988 dollars):					
Wages	0	6,044	9,066	12,088	15,110
AFDC	5,481	1,493	243	0	0
Food stamps	2,540	2,283	1,894	1,242	0
Federal taxes	0	392	193	−259	−1,224
Disposable income	8,021	10,212	11,396	13,071	13,886
1990P (in 1988 dollars):					
Wages	0	6,044	9,066	12,088	15,110
AFDC	5,315	1,321	201	0	0
Food stamps	2,644	2,389	1,963	1,298	0
Federal taxes	0	384	177	−320	−1,307
Disposable income	7,959	10,138	11,407	13,066	13,803

P: Projected based on current law.

Note: Weighted average across States. If taxes are positive, this means earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes include both income and payroll taxes.

TABLE 38.—COMPARISON OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER WITH TWO CHILDREN WITHOUT CHILD CARE EXPENSES: 1976, 1980, 1984, 1986, 1988, AND 1990 PROJECTED

	Wages (as a percent of poverty threshold)					
	0	50	75	90	100	125
Wages (1988 dollar equivalent)	0	4,714	7,071	8,485	9,428	11,785
Average disposable income:						
1976 (1988 dollar equivalent)	8,214	10,787	11,904	12,548	12,792	13,450
1980 (1988 dollar equivalent)	7,071	9,439	10,590	11,106	11,323	11,934
1984 (1988 dollar equivalent)	6,561	7,770	8,734	9,268	9,682	10,752
1986 (1988 dollar equivalent)	6,735	8,367	9,085	9,473	9,824	10,859
1988 (1988 dollar equivalent)	6,661	8,513	9,448	10,156	10,730	11,919
1990P (1988 dollar equivalent)	6,611	8,407	9,424	10,166	10,759	11,900
Percentage change:						
1976 to 1988	−18.9	−21.1	−20.6	−19.1	−16.1	−11.4
1980–1988	−5.8	−9.8	−10.8	−8.6	−5.2	−.1
1984–1988	1.5	9.6	8.2	9.6	10.8	10.9
1980 to 1990P	−6.5	−10.9	−11.0	−8.5	−5.0	−.3
Disposable income as a percentage of poverty thresholds:						
1976	87.1	114.4	126.3	133.1	135.7	142.7
1980	75.0	100.1	112.3	117.8	120.1	126.6
1984	69.6	82.4	92.6	98.3	102.7	114.0
1988	70.7	90.3	100.2	107.7	113.8	126.4
Number of States which supplement wages with AFDC:						
1976	NA	49	47	45	44	33
1980	NA	47	42	35	33	20
1984	NA	25	7	1	1	0
1986	NA	38	11	4	1	0
1988	NA	39	13	3	0	0
1990P	NA	37	9	1	0	0
Number of States with disposable income above poverty:						
1976	11	40	49	49	49	49
1980	0	21	36	49	49	49
1984	0	2	1	1	49	49
1986	0	8	8	4	49	49
1988	0	8	10	49	49	49
1990P	0	8	9	49	49	49
Average tax rate (in percent):						
1976	NA	45	48	49	51	56
1984	NA	74	69	68	67	64
1988	NA	61	61	59	60	59

NA: Not applicable.
P: Projected based on current law.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes.

TABLE 39.—COMPOSITION OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER WITH TWO CHILDREN WITHOUT CHILD CARE EXPENSES: 1976, 1980, 1984, 1986, 1987, 1988, AND 1990 PROJECTED

	Wages (as a percent of poverty threshold)					
	0	50	75	90	100	125
1976 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	6,203	4,528	3,417	2,750	2,281	1,477
Food stamps	2,011	1,350	1,123	997	917	703
Federal taxes	0	195	293	316	166	−515
Disposable income	8,214	10,787	11,904	12,548	12,792	13,450
1980 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,429	11,785
AFDC	5,157	3,158	2,113	1,620	1,311	719
Foods stamps	1,914	1,385	1,133	925	799	438
Federal taxes	0	182	273	76	−215	−1,008
Disposable income	7,071	9,439	10,590	11,106	11,323	11,934
1984 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	4,578	1,004	155	5	2	0
Food stamps	1,983	1,896	1,556	1,253	1,022	441
Federal taxes	0	156	−48	−475	−770	−1,474
Disposable income	6,561	7,770	8,734	9,268	9,682	10,752
1986 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	4,735	1,679	444	105	3	0
Food stamps	2,000	1,792	1,588	1,331	1,134	570
Federal taxes	0	182	−18	−448	−741	−1,496
Disposable income	6,735	8,367	9,085	9,473	9,824	10,859
1988 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	4,617	1,698	452	103	0	0
Food stamps	2,044	1,795	1,582	1,331	1,136	569
Federal taxes	0	306	343	237	166	−435
Disposable income	6,661	8,513	9,448	10,156	10,730	11,919
1990P (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	4,483	1,492	372	73	0	0
Food stamps	2,128	1,902	1,652	1,387	1,182	616
Federal taxes	0	229	329	221	149	−501
Disposable income	6,611	8,407	9,424	10,166	10,759	11,900

P: Projected based on current law.

Note: Weighted average across States. If taxes are positive, this means earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

TABLE 40.—COMPARISON OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER WITH TWO CHILDREN WITH CHILD CARE EXPENSES: 1976, 1980, 1984, 1986, 1987, 1988, AND 1990 PROJECTED

	Wages (as a percent of poverty threshold)					
	0	50	75	90	100	125
Wages (1988 dollar equivalent)	0	4,714	7,071	8,485	9,428	11,785
Average disposable income:						
1976 (1988 dollar equivalent)	8,214	10,716	11,829	12,414	12,604	13,187
1980 (1988 dollar equivalent)	7,071	9,380	10,283	10,688	10,883	11,386
1984 (1988 dollar equivalent)	6,561	7,524	7,970	8,290	8,664	9,784
1986 (1988 dollar equivalent)	6,735	8,254	8,623	8,863	9,140	10,152
1988 (1988 dollar equivalent)	6,661	8,422	8,890	9,298	9,699	10,941
1990P (1988 dollar equivalent)	6,611	8,295	8,823	9,265	9,687	10,962
Percentage change:						
1976–1988	−18.9	−21.4	−24.8	−25.1	−23.0	−17.0
1980–1988	−5.8	−10.2	−13.5	−13.0	−10.9	−3.9
1984–1988	1.5	11.9	11.5	12.2	11.9	11.8
1980–1990P	−6.5	−11.6	−14.2	−13.3	−11.0	−3.7
Number of States which supplement wages with AFDC:						
1976	NA	49	49	49	48	45
1980	NA	49	49	46	44	34
1984	NA	36	11	9	6	1
1986	NA	44	29	12	7	1
1988	NA	45	27	13	8	0
1990P	NA	44	24	11	7	0
Number of States with disposable income above poverty:						
1976	11	37	46	49	49	49
1980	0	21	35	38	42	49
1984	0	1	0	0	1	49
1986	0	8	9	7	5	49
1988	0	8	11	11	49	49
1990P	0	8	9	9	49	49
Average tax rate (in percent):						
1976	NA	47	49	51	53	58
1984	NA	80	80	80	78	73
1988	NA	63	68	69	71	66
Percentage of childcare reimbursed:						
1976	NA	92	95	92	89	85
1980	NA	94	78	75	74	68
1984	NA	74	46	42	41	44
1986	NA	88	67	64	60	59
1988	NA	90	61	49	40	43
1990P	NA	88	57	47	38	46

NA: Not applicable.
P: Projected based on current law.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less day care expenses less Federal taxes.

TABLE 41.—COMPOSITION OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER WITH TWO CHILDREN WITH CHILD CARE EXPENSES: 1976, 1980, 1984, 1987, 1988, AND 1990 PROJECTED

	Wages (as a percent of poverty threshold)					
	0	50	75	90	100	125
1976 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	6,203	5,370	4,724	4,256	3,740	2,518
Food stamps	2,011	1,380	1,155	1,054	996	816
Child care	0	−943	−1,414	−1,697	−1,726	−1,726
Federal taxes	0	195	293	316	166	−206
Disposable income	8,214	10,716	11,829	12,414	12,604	13,187
1980 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	5,157	4,087	3,376	2,904	2,420	1,524
Food stamps	1,914	1,340	977	798	722	466
Child care	0	−943	−1,414	−1,697	−1,726	−1,726
Federal taxes	0	182	273	198	39	−663
Disposable income	7,071	9,380	10,283	10,688	10,883	11,386
1984 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	4,578	1,625	538	267	99	1
Food stamps	1,983	1,972	1,709	1,440	1,250	698
Child care	0	−943	−1,414	−1,697	−1,726	−1,726
Federal taxes	0	156	66	−205	−387	−974
Disposable income	6,561	7,524	7,970	8,290	8,664	9,784
1988 (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	4,617	2,511	1,053	549	247	0
Food stamps	2,044	1,834	1,837	1,724	1,584	1,087
Child care	0	−943	−1,414	−1,697	−1,726	−1,726
Federal taxes	0	306	343	237	166	−205
Disposable income	6,661	8,422	8,890	9,298	9,699	10,941
1990P (in 1988 dollars):						
Wages	0	4,714	7,071	8,485	9,428	11,785
AFDC	4,483	2,274	914	461	193	0
Food stamps	2,128	1,951	1,923	1,795	1,643	1,134
Child care	0	−943	−1,414	−1,697	1,726	−1,726
Federal taxes	0	299	329	221	149	−231
Disposable income	6,611	8,295	8,823	9,265	9,687	10,962

P: Projected based on current law.

Note: Weighted average across States. If taxes are positive, this means earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

Tables 42 to 45 present a State-by-State analysis of the changes from 1976 (or 1972) to 1988 in AFDC and food stamp benefits, and the resulting changes in total disposable income. Benefits in table 42 were calculated for a family of three, a mother with two children, in 1976 and 1988. Data is provided for three wage-earning groups: wages equaling 0, 50, and 75 percent of the poverty level. For a mother with two children, the poverty threshold in 1988 is $9,428. The examples assume no child care expenses. All dollar values are given in 1988 dollars and were adjusted using CPI-U. Tables 44 and 45 present the information for a mother and three children, analyzing the changes from 1972 to 1988. Table 42 presents the data in the following order:

Column one—The AFDC benefit level in 1976 for a mother with two children with no income.

Column two—The total income (AFDC and food stamp benefits) in 1976 of a mother with two children with no income.

Column three—The AFDC benefit level in 1976 for a mother with two children with earned income equal to 50 percent of the poverty level ($4,714 in 1988 dollars).

Column four—The total disposable income in 1976 of a mother with two children with earned income equal to 50 percent of the poverty level. Total disposable income is AFDC, plus food stamps, plus wages, plus EITC, less Federal income and payroll taxes.

Column five—The total disposable income in 1976 of a mother with two children with earned income equal to 75 percent of the poverty level ($7,071 in 1988 dollars).

Columns six to ten—Same as columns one to five, respectively, for 1988.

Column one of table 43 shows the percentage change in AFDC benefits from 1976 to 1988 for a mother with two children with no income. Over that time period, real AFDC benefits decreased by a weighted national average of 26 percent from $6,203 to $4,617. Seven States showed decreases of over 40 percent—Alabama, Idaho, Kentucky, North Dakota, Oregon, South Dakota, and West Virginia. Only two States—Georgia and Mississippi—showed a significant percentage increase, and these States have very low benefit levels compared with national averages.

Column two shows the percentage change in total income, comprised of AFDC and food stamps, from 1976 to 1988 for a mother with two children with no income. Total income decreased by an average of 19 percent. For the most part, the percentage change did not vary greatly between States; every State shows a decrease in total income. In almost all States, AFDC benefits decreased by a greater percentage than total income. This indicates that as the Federal Government increased the food stamp benefits, States undercut the increase by decreasing state-funded AFDC benefits. Or stated alternatively, in real terms states failed to keep AFDC benefit levels up with inflation.

Column three shows the average tax rate in 1976 for a mother with two children with earnings between $0 and, $4,714. The national average was a rate of 45 percent, with 38 States having rates of 49 percent.

Column four shows the same tax rate in 1988. The national average increased sharply to a rate of 61 percent, with most States having rates in the 60–68 percent range. Thus while tax rates were lowered for upper income families, tax rates on the poor increased by 33 percent.

While all States supplemented wages equal to 50 percent of poverty in 1976, in 1988 to States has discontinued AFDC benefits with earnings equal to $4,714 (50 percent of poverty). This was primarily the result of the 1981 Federal AFDC earnings disregard changes.

Of the 39 jurisdictions in 1988 that awarded any AFDC benefits at earnings equal to $4,714, the typical tax rate was 69 percent. However, eight jurisdictions, namely Colorado, Georgia, Maine, Michigan, Mississippi, South Carolina, Tennessee, and Utah, have found a way to reduce the implications of the Federal law and have achieved tax rates below 69 percent. For example, Mississippi has a tax rate of 16 percent, followed by Tennessee at 21 percent and Maine at 29 percent.

Column five calculates the percent change in average tax rates from the two previous columns. The tax rate for a mother with two children with earned income equal to 50 percent of the poverty level increased from 1976 to 1988 by a national average of 34 percent. Only three States, Alabama, Maine, and Michigan, showed decreased tax rates.

Column six shows the average AFDC tax rate for a mother with two children with earned income between $0 and $4,714. A 100 percent tax rate would mean that AFDC is reduced one dollar for every additional dollar of earned income. Most States have AFDC tax rates in the 60–70 percent range, with the national average 62 percent.

Columns seven and eight show the marginal tax rates for 1976 and 1988 for a mother with two children with earned income between 50 and 75 percent of the poverty level. In 1976 the weighted national average was 53 percent; by 1988 it had risen to 60 percent. Thirteen States had marginal income tax rates of over 90 percent. In other words, if a mother were to increase her earnings by $3,000, her disposable income would actually increase by less than $300 in these States. This does not take into account any additional work expenses or the fact that increasing earnings might lead to the loss of Medicaid benefits.

Columns 9 and 10 show the percent change in total disposable income between 1976 and 1988 for a mother with two children and earned income of 50 and 75 percent of the poverty level, respectively. At both wage earning levels *every* State showed a decrease in total income over the time period, with average decreases 21 percent for earnings of $4,714 (50 percent of poverty) and 22 percent for earnings of $7,071 (75 percent of poverty).

Tables 44 and 45 present the same data as tables 42 and 43 for a mother with three children and over a longer time period, from 1972 to 1988.

TABLE 42.—AFDC, AFDC AND FOOD STAMPS, AND TOTAL INCOME FOR A MOTHER AND TWO CHILDREN AT VARIOUS EARNINGS LEVELS FOR 1976 AND 1988, BY STATE

	1976 wages (in 1988 dollars)					1988 wages				
	No wages		$4,714 [1]		$7,071 [2]	No wages		$4,714 [1]		$7,071 [2]
	AFDC benefit (1)	Total income [3] (2)	AFDC benefit (3)	Total income (4)	Total income (5)	AFDC benefit (6)	Total income [3] (7)	AFDC benefit (8)	Total income (9)	Total income (10)
Alabama	2,691	5,759	793	8,150	9,454	1,416	4,152	0	7,287	9,115
Arizona	4,087	6,736	2,751	9,520	10,790	3,516	5,860	242	7,456	9,115
Arkansas	3,115	6,056	3,115	9,775	11,560	2,448	5,112	0	7,287	9,115
California	7,949	9,440	6,051	11,830	12,851	7,956	8,968	4,682	10,564	10,743
Colorado	5,657	7,835	3,758	10,225	11,246	4,272	6,389	1,507	8,342	9,115
Connecticut	8,672	9,945	6,774	12,336	13,538	7,476	8,632	4,202	10,228	10,407
Delaware	6,105	8,149	4,207	10,539	11,560	3,828	6,078	554	7,675	9,115
District of Columbia	6,404	8,358	4,506	10,749	11,770	4,548	6,582	1,274	8,179	9,115
Florida	3,588	6,387	1,690	8,778	9,798	3,300	5,708	0	7,287	9,115
Georgia	2,866	5,881	1,950	8,960	10,258	3,240	5,666	1,238	8,154	9,115
Idaho	7,476	9,108	5,578	11,499	12,520	3,648	5,952	374	7,549	9,115
Illinois	6,504	8,428	4,606	10,819	11,839	4,104	6,336	830	7,933	9,115
Indiana	4,984	7,364	4,979	11,080	12,101	3,456	5,818	182	7,414	9,115
Iowa	7,326	9,004	5,428	11,394	12,415	4,728	6,708	1,454	8,305	9,115
Kansas	8,248	9,649	6,350	12,040	13,114	5,124	7,180	1,850	8,776	9,115
Kentucky	4,610	7,102	2,712	9,493	10,514	2,616	5,230	0	7,287	9,115
Louisiana	3,190	6,108	1,291	8,499	9,519	2,280	4,994	0	7,287	9,115
Maine	5,507	7,730	3,609	10,121	11,142	4,992	6,893	3,602	9,808	9,987

TABLE 42.—AFDC, AFDC AND FOOD STAMPS, AND TOTAL INCOME FOR A MOTHER AND TWO CHILDREN AT VARIOUS EARNINGS LEVELS FOR 1976 AND 1988, BY STATE—Continued

	1976 wages (in 1988 dollars)					1988 wages				
	No wages		$4,714 [1]		$7,071 [2]	No wages		$4,714 [1]		$7,071 [2]
	AFDC benefit (1)	Total income [3] (2)	AFDC benefit (3)	Total income (4)	Total income (5)	AFDC benefit (6)	Total income [3] (7)	AFDC benefit (8)	Total income (9)	Total income (10)
Maryland	4,984	7,364	3,086	9,754	10,775	4,524	6,778	1,250	8,374	9,115
Massachusetts	8,174	9,597	6,275	11,987	13,039	6,468	7,926	3,194	9,523	9,701
Michigan	8,398	9,754	6,500	12,144	13,264	5,232	7,061	3,542	9,766	9,945
Minnesota	8,224	9,632	6,325	12,022	13,089	6,384	7,867	3,110	9,464	9,642
Mississippi	1,196	4,436	1,196	8,432	10,269	1,440	4,176	685	7,767	9,115
Missouri	3,364	6,230	3,364	9,950	11,809	3,384	5,767	0	7,287	9,115
Montana	5,507	7,730	3,609	10,121	11,142	4,308	6,414	1,034	8,011	9,115
Nebraska	6,280	8,271	5,079	11,150	12,171	4,368	6,456	1,094	8,053	9,115
Nevada	5,813	7,503	3,285	9,894	10,915	3,960	6,170	686	7,767	9,115
New Hampshire	7,675	9,248	5,777	11,638	12,659	5,952	7,565	2,678	9,162	9,340
New Jersey	7,725	9,283	5,827	11,673	12,694	5,088	7,050	1,814	8,647	9,115
New Mexico	4,211	6,823	2,589	9,407	10,545	3,168	5,616	0	7,287	9,115
New York	9,818	10,748	7,920	13,428	14,684	6,468	8,117	3,194	9,714	9,892
North Carolina	4,560	7,067	2,662	9,458	10,479	3,192	5,633	0	7,287	9,115
North Dakota	7,526	9,143	5,627	11,534	12,555	4,452	6,515	1,178	8,112	9,115
Ohio	5,084	7,434	3,185	9,824	10,845	3,708	6,044	434	7,641	9,115
Oklahoma	5,781	7,922	3,883	10,313	11,333	3,720	6,002	446	7,599	9,115

Oregon	8,822	10,050	6,923	12,441	13,687	4,944	7,284	1,670	8,881	9,115
Pennsylvania	7,900	9,405	6,001	11,795	12,816	4,824	6,775	1,550	8,372	9,115
Rhode Island	7,825	9,352	5,926	11,743	12,764	6,204	7,802	2,930	9,399	9,578
South Carolina	2,392	5,550	2,392	9,269	10,392	2,412	5,087	820	7,861	9,115
South Dakota	7,302	8,986	5,403	11,377	12,398	4,392	6,473	1,118	8,070	9,115
Tennessee	2,866	5,881	2,562	9,388	10,409	2,076	4,812	1,106	8,061	9,115
Texas	2,891	5,899	992	8,289	9,454	2,208	4,944	0	7,287	9,115
Utah	6,853	8,672	4,955	11,063	12,084	4,512	6,557	2,060	8,729	9,321
Vermont	8,298	9,684	6,400	12,075	13,164	7,548	8,682	4,274	10,279	10,457
Virginia	6,679	8,550	4,780	10,941	11,961	4,248	6,372	974	7,969	9,115
Washington	8,174	9,597	6,275	11,987	13,039	5,904	7,697	2,630	9,294	9,388
West Virginia	5,133	7,468	3,235	9,859	10,880	2,988	5,490	0	7,287	9,115
Wisconsin	8,896	10,102	6,998	12,506	13,762	6,204	7,741	2,930	9,338	9,516
Wyoming	6,105	8,149	4,207	10,539	11,560	4,320	6,422	1,046	8,019	9,115
Average	5,976	8,052	4,355	10,649	11,768	4,317	6,440	1,417	8,309	9,308
Weighted average	6,203	8,214	4,528	10,787	11,904	4,617	6,661	1,698	8,513	9,448

[1] Wages equal to 50 percent of poverty.
[2] Wages equal to 75 percent of poverty.
[3] Total income comprised of AFDC and food stamp benefits.

TABLE 43.—CHANGES IN BENEFIT LEVELS AND TOTAL INCOME FOR A MOTHER AND TWO CHILDREN AT VARIOUS EARNINGS LEVELS BETWEEN 1976 AND 1988, BY STATE

[Derived from Table 42]

	Percent change in AFDC, 1976–88	Percent change in AFDC and Food Stamps, 1976–88	Average tax rate [1]		Percent change in tax rate, 1976–88	Average AFDC tax rate, 1988	Marginal tax rate [1]		Percent change total income, 1976–88	
			1976	1988			1976	1988	Wages=$4,714	Wages=$7,071
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Alabama	−47	−28	49	33	−32	30	45	22	−11	−4
Arizona	−14	−13	41	66	62	69	46	30	−22	−16
Arkansas	−21	−16	21	54	155	52	24	22	−25	−21
California	0	−5	49	66	34	69	57	92	−11	−16
Colorado	−24	−18	49	59	19	59	57	67	−18	−19
Connecticut	−14	−13	49	66	34	69	49	92	−17	−23
Delaware	−37	−25	49	66	34	69	57	39	−27	−21
District of Columbia	−29	−21	49	66	34	69	57	60	−24	−23
Florida	−8	−11	49	67	35	70	57	22	−17	−7
Georgia	13	−4	35	47	36	42	45	59	−9	−11
Idaho	−51	−35	49	66	34	69	57	34	−34	−27
Illinois	−37	−25	49	66	34	69	57	50	−27	−23
Indiana	−31	−21	21	66	212	69	57	28	−33	−25
Iowa	−35	−25	49	66	34	69	57	66	−27	−27
Kansas	−38	−26	49	66	34	69	54	86	−27	−30
Kentucky	−43	−26	49	56	14	55	57	22	−23	−13

Louisiana	−29	−18	49	51	4	48	57	22	−14	−4
Maine	−9	−11	49	38	−23	29	57	92	−3	−10
Maryland	−9	−8	49	66	34	69	57	69	−14	−15
Massachusetts	−21	−17	49	66	34	69	55	92	−21	−26
Michigan	−38	−28	49	43	−14	36	52	92	−20	−25
Minnesota	−22	−18	49	66	34	69	55	92	−21	−26
Mississippi	20	−6	15	24	56	16	22	43	−8	−11
Missouri	1	−7	21	68	221	72	21	22	−27	−23
Montana	−22	−17	49	66	34	69	57	53	−21	−18
Nebraska	−30	−22	39	66	70	69	57	55	−28	−25
Nevada	−24	−18	49	66	34	69	57	43	−21	−16
New Hampshire	−22	−18	49	66	34	69	57	92	−21	−26
New Jersey	−34	−24	49	66	34	69	57	80	−26	−28
New Mexico	−25	−18	45	65	43	67	52	22	−23	−14
New York	−34	−24	43	66	53	69	47	92	−28	−33
North Carolina	−30	−20	49	65	32	68	57	22	−23	−13
North Dakota	−41	−29	49	66	34	69	57	57	−30	−27
Ohio	−27	−19	49	66	34	69	57	37	−22	−16
Oklahoma	−36	−24	49	66	34	69	57	36	−26	−20
Oregon	−44	−28	49	66	34	69	47	90	−29	−33
Pennsylvania	−39	−28	49	66	34	69	57	68	−29	−29
Rhode Island	−21	−17	49	66	34	69	57	92	−20	−25
South Carolina	1	−8	21	41	95	34	52	47	−15	−12
South Dakota	−40	−28	49	66	34	69	57	56	−29	−26
Tennessee	−28	−18	26	31	21	21	57	55	−14	−12
Texas	−24	−16	49	50	2	47	51	22	−12	−4
Utah	−34	−24	49	54	9	52	57	75	−21	−25

TABLE 43.—CHANGES IN BENEFIT LEVELS AND TOTAL INCOME FOR A MOTHER AND TWO CHILDREN AT VARIOUS EARNINGS LEVELS BETWEEN 1976 AND 1988, BY STATE—Continued

[Derived from Table 42]

	Percent change in AFDC, 1976–88	Percent change in AFDC and Food Stamps, 1976–88	Average tax rate [1]		Percent change in tax rate, 1976–88	Average AFDC tax rate, 1988	Marginal tax rate [1]		Percent change total income, 1976–88	
			1976	1988			1976	1988	Wages=$4,714	Wages=$7,071
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Vermont	−9	−10	49	66	34	69	54	92	−15	−29
Virginia	−36	−25	49	66	34	69	57	51	−27	−13
Washington	−28	−20	49	66	34	69	55	96	−22	−30
West Virginia	−42	−26	49	62	26	63	57	22	−26	−14
Wisconsin	−30	−23	49	66	35	69	47	92	−25	−34
Wyoming	−29	−21	49	66	34	69	57	54	−24	−18
Average	−28	−20	45	60	34	62	53	58	−22	−23
Weighted average	−26	−19	45	61	34	62	53	60	−21	−22

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[1] See text for definition of average and marginal tax rates.

TABLE 44.—AFDC, AFDC AND FOOD STAMPS, AND TOTAL INCOME FOR A MOTHER AND THREE CHILDREN AT VARIOUS EARNINGS LEVELS FOR 1972 AND 1988, BY STATE

	1972 wages (in 1988 dollars)					1988 wages				
	No wages		$6,044 [1]		$9,066 [2]	No wages		$6,044 [1]		$9,066 [2]
	AFDC benefit (1)	Total income [3] (2)	AFDC benefit (3)	Total income (4)	Total income (5)	AFDC benefit (6)	Total income [3] (7)	AFDC benefit (8)	Total income (9)	Total income (10)
Alabama	3,291	6,817	858	9,305	10,762	1,764	5,244	0	9,128	11,226
Arizona	6,220	8,867	4,638	11,951	13,242	4,236	7,108	0	9,128	11,226
Arkansas	3,766	7,149	3,766	11,341	13,318	2,964	6,217	0	9,128	11,226
California	9,501	11,163	8,221	14,765	15,944	9,456	10,672	4,852	12,524	12,507
Colorado	8,211	10,261	5,778	12,749	13,627	5,184	7,771	1,285	10,027	11,226
Connecticut	11,469	12,541	9,035	15,579	16,759	8,724	10,249	4,120	12,012	11,994
Delaware	5,158	8,123	3,871	11,415	12,847	4,488	7,284	0	9,128	11,226
District of Columbia	8,110	10,190	5,676	12,678	13,556	5,556	8,032	952	9,794	11,226
Florida	4,886	7,933	3,336	11,040	12,331	3,888	6,864	0	9,128	11,226
Georgia	5,056	8,052	3,699	11,294	12,523	3,828	6,822	724	9,635	11,226
Idaho	9,569	11,211	7,135	13,699	14,858	4,128	7,032	0	9,128	11,226
Illinois	9,229	10,973	6,796	13,462	14,519	4,632	7,450	0	9,128	11,226
Indiana	6,956	9,382	6,956	13,574	16,365	4,152	7,049	0	9,128	11,226
Iowa	8,245	10,285	5,812	12,773	13,651	5,496	7,990	892	9,752	11,226
Kansas	10,926	12,161	8,492	15,036	16,216	5,928	8,551	1,324	10,314	11,226
Kentucky	5,802	8,574	3,369	11,063	11,941	3,264	6,427	0	9,128	11,226
Louisiana	3,665	7,078	1,231	9,567	10,762	2,808	6,108	0	9,128	11,226

TABLE 44.—AFDC, AFDC AND FOOD STAMPS, AND TOTAL INCOME FOR A MOTHER AND THREE CHILDREN AT VARIOUS EARNINGS LEVELS FOR 1972 AND 1988, BY STATE—Continued

	1972 wages (in 1988 dollars)					1988 wages				
	No wages		$6,044 [1]		$9,066 [2]	No wages		$6,044 [1]		$9,066 [2]
	AFDC benefit (1)	Total income [3] (2)	AFDC benefit (3)	Total income (4)	Total income (5)	AFDC benefit (6)	Total income [3] (7)	AFDC benefit (8)	Total income (9)	Total income (10)
Maine	5,700	8,503	5,700	12,695	15,109	6,264	8,527	4,036	11,953	11,936
Maryland	6,786	9,263	4,353	11,752	12,629	5,448	8,204	844	9,967	11,226
Massachusetts	11,842	12,802	9,408	15,952	17,132	7,536	9,418	2,932	11,180	11,226
Michigan	12,249	13,087	9,815	16,360	17,539	6,468	8,670	3,712	11,726	11,709
Minnesota	11,503	12,565	9,069	15,613	16,793	7,452	9,359	2,848	11,122	11,226
Mississippi	2,036	5,836	2,036	10,130	12,187	1,728	5,208	427	9,427	11,226
Missouri	4,411	7,601	4,411	11,793	13,850	3,960	6,914	0	9,128	11,226
Montana	6,990	9,406	4,556	11,894	12,772	5,196	7,780	592	9,542	11,226
Nebraska	7,668	9,881	7,668	14,213	15,707	5,220	7,796	616	9,559	11,226
Nevada	5,972	8,693	3,538	11,182	12,059	4,680	7,418	0	9,128	11,226
New Hampshire	9,976	11,496	7,542	14,086	15,266	6,624	8,779	2,020	10,542	11,226
New Jersey	10,994	12,208	8,560	15,104	16,284	5,856	8,346	1,252	10,109	11,226
New Mexico	6,061	8,756	3,920	11,449	12,468	3,804	6,805	0	9,128	11,226
New York	10,620	11,947	8,187	14,731	15,910	7,656	9,749	3,052	11,512	11,226
North Carolina	5,395	8,289	2,961	10,778	11,656	3,492	6,587	0	9,128	11,226
North Dakota	10,179	11,638	7,746	14,290	15,469	5,448	7,956	844	9,719	11,226
Ohio	6,786	9,263	4,353	11,752	12,629	4,584	7,412	0	9,128	11,226
Oklahoma	6,413	9,002	3,979	11,490	12,368	4,608	7,368	0	9,128	11,226

Oregon	9,060	10,855	6,626	13,343	14,350	6,012	8,779	1,408	10,536	11,226
Pennsylvania	10,620	11,947	8,187	14,731	15,910	5,880	8,258	1,276	10,021	11,226
Rhode Island	8,924	10,760	6,490	13,248	14,214	7,080	9,167	2,476	10,930	11,226
South Carolina	3,529	6,983	2,312	10,323	11,791	2,904	6,175	638	9,575	11,226
South Dakota	9,670	11,282	7,237	13,781	14,960	4,896	7,570	292	9,332	11,226
Tennessee	4,479	7,648	4,479	11,840	13,033	2,532	5,915	736	9,643	11,226
Texas	5,022	8,028	2,588	10,517	11,394	2,652	5,999	0	9,128	11,226
Utah	7,974	10,095	5,540	12,583	13,461	5,268	7,830	1,819	10,410	11,226
Vermont	11,367	12,470	8,933	15,477	16,657	8,460	10,064	3,856	11,827	11,810
Virginia	8,856	10,712	6,422	13,201	14,146	4,920	7,586	316	9,349	11,226
Washington	9,976	11,496	7,542	14,086	15,266	6,936	9,199	2,332	10,962	11,226
West Virginia	4,954	7,981	2,520	10,469	11,347	3,744	6,763	0	9,128	11,226
Wisconsin	10,247	11,686	7,814	14,358	15,537	7,404	9,325	2,800	11,088	11,226
Wyoming	7,702	9,905	6,388	13,177	14,112	4,680	7,418	0	9,128	11,226
Average	7,633	9,854	5,705	12,810	14,025	5,100	7,741	1,128	9,949	11,304
Weighted average	8,030	10,133	6,060	13,110	14,304	5,481	8,021	1,493	10,212	11,369

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[1] Wages equal to 50 percent of poverty.

[2] Wages equal to 75 percent of poverty.

[3] Total income comprised of AFDC and food stamp benefits.

TABLE 45.—CHANGES IN BENEFIT LEVELS AND TOTAL INCOME FOR A MOTHER AND THREE CHILDREN AT VARIOUS EARNINGS LEVELS BETWEEN 1972 AND 1988, BY STATE

[Derived from Table 44]

	Percent change in AFDC, 1972–88 (1)	Percent change in AFDC and food stamps, 1972–88 (2)	Average tax rate [1]		Percent change in tax rate, 1972–88 (5)	Average AFDC tax rate, 1988 (6)	AFDC marginal tax rate [1]		Percent change total income, 1972–88	
			1972 (3)	1988 (4)			1972 (7)	1988 (8)	Wages=$6,044 (9)	Wages=$9,066 (10)
Alabama	−46	−23	59	36	−39	29	52	31	−2	4
Arizona	−32	−20	49	67	36	70	57	31	−24	−15
Arkansas	−21	−13	31	52	69	49	35	31	−20	−16
California	0	−4	40	71	75	76	61	101	−15	−22
Colorado	−37	−24	59	63	7	65	71	60	−21	−18
Connecticut	−24	−18	50	71	42	76	61	101	−23	−28
Delaware	−13	−10	46	69	53	74	53	31	−20	−13
District of Columbia	−31	−21	59	71	20	76	71	53	−23	−17
Florida	−20	−13	49	63	29	64	57	31	−17	−9
Georgia	−24	−15	46	53	15	51	59	47	−15	−10
Idaho	−57	−37	59	65	11	68	62	31	−33	−24
Illinois	−50	−32	59	72	23	77	65	31	−32	−23
Indiana	−40	−25	31	66	114	69	8	31	−33	−31
Iowa	−33	−22	59	71	20	76	71	51	−24	−18
Kansas	−46	−30	52	71	35	76	61	70	−31	−31
Kentucky	−44	−25	59	55	−6	54	71	31	−17	−6

Louisiana	−23	−14	59	50	−15	46	60	31	−5	4
Maine	10	0	31	43	41	37	20	101	−6	−21
Maryland	−20	−11	59	71	20	76	71	58	−15	−11
Massachusetts	−36	−26	48	71	48	76	61	98	−30	−34
Michigan	−47	−34	46	49	8	46	61	101	−28	−33
Minnesota	−35	−26	50	71	43	76	61	97	−29	−33
Mississippi	−15	−11	29	30	4	22	32	40	−7	−8
Missouri	−10	−9	31	63	107	66	32	31	−23	−19
Montana	−26	−17	59	71	20	76	71	44	−20	−12
Nebraska	−32	−21	28	71	150	76	51	45	−33	−29
Nevada	−22	−15	59	72	22	77	71	31	−18	−7
New Hampshire	−34	−24	57	71	24	76	61	77	−25	−26
New Jersey	−47	−32	52	71	36	76	61	63	−33	−31
New Mexico	−37	−22	55	62	11	63	66	31	−20	−10
New York	−28	−18	54	71	31	76	61	109	−22	−29
North Carolina	−35	−21	59	58	−1	58	71	31	−15	−4
North Dakota	−46	−32	56	71	26	76	61	50	−32	−27
Ohio	−32	−20	59	72	22	76	71	31	−22	−11
Oklahoma	−28	−18	59	71	20	76	71	31	−21	−9
Oregon	−34	−19	59	71	21	76	67	77	−21	−22
Pennsylvania	−45	−31	54	71	31	76	61	60	−32	−29
Rhode Island	−21	−15	59	71	20	76	68	90	−17	−21
South Carolina	−18	−12	45	44	−2	37	51	45	−7	−5
South Dakota	−49	−33	59	71	21	76	61	37	−32	−25
Tennessee	−43	−23	31	38	25	30	61	48	−19	−14
Texas	−47	−25	59	48	−18	44	71	31	−13	−1
Utah	−34	−22	59	57	−3	57	71	73	−17	−17

TABLE 45.—CHANGES IN BENEFIT LEVELS AND TOTAL INCOME FOR A MOTHER AND THREE CHILDREN AT VARIOUS EARNINGS LEVELS BETWEEN 1972 AND 1988, BY STATE—Continued

[Derived from Table 44]

	Percent change in AFDC, 1972–88	Percent change in AFDC and food stamps, 1972–88	Average tax rate [1]		Percent change in tax rate, 1972–88	Average AFDC tax rate, 1988	AFDC marginal tax rate [1]		Percent change total income, 1972–88	
			1972	1988			1972	1988	Wages=$6,044	Wages=$9,066
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Vermont	−26	−19	50	71	41	76	61	101	−24	−29
Virginia	−44	−29	59	71	20	76	69	38	−29	−21
Washington	−30	−20	57	71	24	76	61	91	−22	−26
West Virginia	−24	−15	59	61	3	62	71	31	−13	−1
Wisconsin	−28	−20	56	71	27	76	61	95	−23	−28
Wyoming	−39	−25	46	72	56	77	69	31	−31	−20
Average	−33	−21	51	63	24	66	60	55	−22	−19
Weighted Average	−32	−21	51	64	26	66	60	38	−22	−21

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[1] See text for definition of average and marginal tax rates.

STUDY METHODOLOGY

AFDC

Each State's AFDC program was modeled using the appropriate need standard, payment standard, ratable reduction (usually 100 percent), and maximum benefit for July of each year from 1972 to 1988 for families of four, and from 1976 to 1988 for families of three. Data do not exist for three-person families prior to 1976.

All of the AFDC benefit amounts from 1960 to 1968 are from a series of HEW publications entitled: "State Maximums and Other Methods of Limiting Money Payments to Recipients Under Special Types of Public Assistance," September 1960 and October 1968; or "Monthly Cost Standards Used by States for Specified Types of Old Age Assistance Cases and Families Receiving Aid to Families with Dependent Children," January 1961 and January 1965. The AFDC benefit listed in table 23 for 1960 is the January 1961 benefit amount, to which was applied the State maximum AFDC payment amounts in effect for September 1960. Data for 1964 are the January 1965 benefit. The benefit level for 1968 is for the month of April. Data for 1972 to 1988 were provided by the Congressional Research Service. The earlier year data (1960 to 1968) are of lower quality than data for 1972 on. However, the general trends noted in table 28 for 1960 to 1968 are correct.

AFDC benefits are calculated in the fifth month of eligibility, because a majority of female heads with wages are not in their first 4 months of employment. In 1988, the earnings disregard equals $120 a month (a standard work expense disregard of $90 and a $30 income disregard applied during the first 12 months of eligibility). In 1985, 1986, and 1987, the earnings disregard equals $105 per month (under DEFRA, a standard work expense disregard of $75 and a $30 income disregard are applied during the first 12 months of eligibility). In 1984, the disregard equals $75 per month (only the standard deduction is applied after the first 4 months of eligibility under OBRA). For 1972, 1976, and 1980, monthly work expenses of 10 percent of gross wages are applied, up to a maximum of $23, $31, and $45, respectively. The income disregards are applied in 1980 according to the rules in effect prior to enactment of the Omnibus Budget Reconciliation Act (OBRA). Note that work and income disregards are not affected by family size.

The benefit in each State for an AFDC family in its fifth month of eligibility is computed through a four-step process, which is described below. Table 46 presents an example of the calculations for a mother and two children in 1988, with earnings at 50 percent of the poverty threshold.

Step 1: Compute monthly earnings. If monthly earnings are greater than 185 percent of the State need standard, the AFDC benefit equals $0 (zero).

Step 2: Compute monthly countable income. Subtract the monthly total disregard of $120, which includes a standard work expense disregard of $90 plus a $30 income disregard.

Step 3: The AFDC benefit is equal to the State payment standard minus countable income, multiplied by the ratable reduction (which equals 1 in most States), subject to the constraint that the benefit may not exceed the State maximum payment.

Step 4: If the calculated AFDC benefit is less than $10 per month, the actual AFDC benefit equals $0 (zero).

The energy disregard is not used in computing AFDC benefits, but is subtracted from AFDC prior to including AFDC income in the food stamp formula.

TABLE 46.—AFDC BENEFIT FORMULAS FOR EACH STATE, FOR A MOTHER WITH TWO CHILDREN AND MONTHLY EARNINGS OF $393 IN JULY OF 1988

State	Needs standard	Payment standard	Maximum payment	Rateable reduction	Energy disregard	Monthly AFDC benefit
Alabama	384	118	118	1.0		0
Arizona	621	293	293	1.0		20
Arkansas	705	204	204	1.0		0
California	663	663	663	1.0		390
Colorado	421	421	356	.8475		126
Connecticut	623	623	623	1.0		350
Delaware	319	319	319	1.0		46
District of Columbia	712	379	379	1.0		106
Florida	807	275	275	1.0		0
Georgia	376	376	270	1.0		103
Idaho	554	304	304	1.0		31
Illinois	713	342	342	1.0	18	69
Indiana	320	288	288	1.0		15
Iowa	497	394	394	1.0		121
Kansas	427	427	427	1.0	54	154
Kentucky	218	218	218	1.0		0
Louisiana	632	190	190	1.0		0
Maine	573	573	416	1.0		300
Maryland	522	377	377	1.0	59	104
Massachusetts	539	539	539	1.0		266
Michigan (Wayne Co.)	568	568	436	1.0		295
Minnesota	532	532	532	1.0		259
Mississippi	368	368	120	.60		57
Missouri	312	282	282	1.0		0
Montana	434	359	359	1.0		86
Nebraska	364	364	364	1.0		91
Nevada	550	330	330	1.0		57
New Hampshire	496	496	496	1.0		223
New Jersey	424	424	424	1.0	25	151
New Mexico	264	264	264	1.0		0
New York (N.Y.C.)	539	539	539	1.0	53	266
North Carolina	532	266	266	1.0		0

TABLE 46.—AFDC BENEFIT FORMULAS FOR EACH STATE, FOR A MOTHER WITH TWO CHILDREN AND MONTHLY EARNINGS OF $393 IN JULY OF 1988—Continued

State	Needs standard	Payment standard	Maximum payment	Rateable reduction	Energy disregard	Monthly AFDC benefit
North Dakota	371	371	371	1.0	....	98
Ohio	712	309	309	1.0	14	36
Oklahoma	471	310	310	1.0	....	37
Oregon	412	412	412	1.0	118	139
Pennsylvania	614	402	402	1.0	....	129
Rhode Island	517	517	517	1.0	17	244
South Carolina	403	403	201	.499	....	65
South Dakota	366	366	366	1.0	....	93
Tennessee	365	365	173	1.0	....	92
Texas	574	184	184	1.0	....	....
Utah	502	502	376	.749	....	172
Vermont	930	629	629	1.0	....	356
Virginia	393	354	354	1.0	....	81
Washington	872	492	492	1.0	46	219
West Virginia	497	249	249	1.0	....	0
Wisconsin	647	517	517	1.0	....	244
Wyoming	360	360	360	1.0	....	87

Food stamps

Given a wage and AFDC benefit level, the food stamp benefit is calculated using the July 1972, 1976, 1980, 1984, 1985, 1986, 1987, and 1988 food stamp parameters, which vary by family size (see table 46).

Earned income tax credit

The EITC in 1987 and 1988 changed significantly due to the Tax Reform Act of 1986. In 1988, the credit equals 14 percent of the first $6,240 in wages and is phased out at a 10 percent rate for income greater than $9,840. The maximum credit is $874. The EITC in 1987 equals 14 percent of the first $6,080 in wages and is phased out at a 10 percent rate for income greater than $6,920. The maximum credit is $851.

The EITC in 1985 and 1986 applies to AFDC families with adjusted gross income (AGI) and earned income below $11,000 annually. The credit equals 11 percent of the first $5,000 in earnings, for a maximum credit of $550 per family. The maximum allowable credit is phased down at 12.22 percent if the individual's AGI (or, if greater, earned income) exceeds $6,500.

For 1980 and 1984, the credit equals 10 percent of the first $5,000 in earnings; it may not exceed $500 per family. In addition, EITC is phased out at a 12.5 percent rate for earnings above $6,000, and only applies to families with AGI and earned income below $10,000 annually. The EITC is counted as earnings for AFDC purposes only in 1984. For 1972, the credit is not applicable, and for 1976 the credit equals 10 percent of the first $4,000 of wages and is phased out at a 10 percent rate between earnings of $4,000 and $8,000.

The size of the credit is not affected by family size.

Federal income taxes

Federal income taxes are calculated using the head of household tax rates, with a standard deduction and exemptions equal to the number of family members.

Federal payroll taxes

Only FICA payroll taxes are included. The tax rate percentage is 5.20, 5.85, 6.13, 6.70, 7.05, 7.15, 7.15 and 7.51 of wages in 1972, 1976, 1980, 1984, 1985, 1986, 1987, and 1988 respectively.

Day care expenses

These are assumed to be 20 percent of wages up to a maximum of $100 per month (1979 dollars). This was the average deduction in AFDC for those families with child care expenses. This maximum was then inflated or deflated to the appropriate year using the Consumer Price Index.

Additional comments

This methodology did not incorporate any other sources of income or expenses although it is possible that these families could have other income sources. The value of health care benefits—in the form of Medicaid or private health insurance—has not been included. A low-income energy assistance grant also was not assumed. However, several States beginning in 1984 (Maryland, New York, Oregon, Rhode Island, and Washington) have designated a portion of their AFDC grant as energy assistance and this is disregarded in calculating the food stamp benefit. The size of the benefit does not affect the family's eligibility for more energy assistance and the primary effect is to increase food stamp benefits. This energy disregard was modeled when food stamp benefits were calculated.

This section examines income in the one month of July which is the month in which AFDC benefits are usually increased. These amounts are then annualized to examine Federal tax policy. To some extent, this is a simplification of the real world. In some States, AFDC benefits vary by season. Food stamp benefit calculations are different at different times of the year. However, there is no reason to believe that annualizing July data presents a misleading picture of Federal and State policy changes between 1972 and 1987.

Nominal dollars are converted to constant dollars using the CPI-U price index, the same index used to index the poverty thresholds.

1990 projection methodology

AFDC benefits levels for 1990 were projected by calculating the average annual nominal AFDC increase in each State from 1985 to

1988 and assuming this same percentage increase would apply between 1988 and 1990. In the model, work expenses remain at the 1988 amount of $120 per month. Food stamp benefits are estimated by using the same methodology as in previous years. Food stamp parameters for 1990 can be found in table 47.

The EITC in 1990 changed significantly due to the Tax Reform Act of 1986. In 1990, the credit will equal 14 percent of the first $6,822 in wages and is phased out at a 10 percent rate for income greater than $10,752. The maximum credit is $955. Provisions in the Tax Reform Act of 1986 changed the standard deduction, the personal exemption amount, and the individual rates. In 1990, the standard deduction for a head of household is assumed to be $4,800. The personal exemption in 1990 is assumed to be $2,050 per person. Thus, the Federal income tax threshold, not taking into account the earned income tax credit, will be $10,950 and $13,000 for a family of three and four, respectively. The FICA rate for 1990 is 7.65 percent.

TABLE 47.—SUMMARY OF KEY MONTHLY FOOD STAMP PARAMETERS FOR JULY OF EACH MODEL YEAR

	1972	1976	1980	1984	1985	1986	1987	1988	1990
Maximum allotment:									
Family of 3	92	130	165	199	208	211	214	228	255
Family of 4	112	166	209	253	264	268	272	290	324
Standard deduction	40 [1]	55 [1]	75	89	95	98	99	102	111
Work expenses	(2)	(2)	20% of wages.	18% of wages.	18% of wages.	20% of wages.	20% of wages.	20% of wages..	20% of wages.
Monthly shelter deduction	None	None	45	62.5	67	73.5	74.5	82	89
Countable income limit:									
Family of 3	NA	$433	$520	$705	$738	$760	$775	$775	$842
Family of 4	$390	$570	$621	$825	$888	$917	$934	$934	$1,012
Gross income limit:									
Family of 3	None	None	None	$917	$959	$988	$1,008	$1,008	$1,094
Family of 4	None	None	None	$1,073	$1,154	$1,192	$1,214	$1,214	$1,316

[1] In addition, the monthly purchase requirement table had a $30 deduction amount built into the table. These amounts include the shelter deduction.

[2] Work expense deduction in 1972 and 1976 equals actual taxes plus 10 percent of wages, up to $275 annually in 1972 and $375 annually in 1976.

NA=Not applicable.

APPENDIX H. DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE ELDERLY

This appendix presents selected historical and current data on the demographic and economic characteristics of the elderly. Tables 1 through 20 present characteristics of the overall elderly population, including: population and life expectancy trends; marital status and living arrangements; labor force participation; poverty statistics; income sources; and Federal spending and tax policy. Tables 21 through 26 present characteristics of new retirees and newly disabled beneficiaries. Date sources are noted at the bottom of each table.

The following definitions may be useful for reading the tables:

(1) "Aged" and "elderly" each refer to any person 65 years old or older.

(2) "OASDI" and "Social Security" are used interchangeably.

(3) "Supplemental security income" is, at times, abbreviated "SSI."

(4) The concepts "unrelated individual" and "unit" are used many times throughout this appendix. "Unrelated individual" refers to any individual living alone. "Unit" refers to an individual living alone, a couple living alone or a family.

POPULATION

The U.S. population is aging. As table 1 illustrates, there has been and will continue to be a dramatic increase in the proportion of the population which is elderly. The elderly represented 6.7 percent of the population in 1940, 11.1 percent in 1980, and are projected to represent 12.9 percent of the population by the year 2000. The actual number of elderly individuals is expected to quadruple between 1940 and 2000, and increase by roughly 40 percent between 1980 and 2000.

The percentages of the population that are 75 and over and 85 and over will grow at a faster rate than the overall elderly population. Between 1980 and 2000, the percentage of the population that is over age 75 is projected to increase from 4.4 to 6.2 percent. The percentage of the population that is age 85 and over is projected to increase from 1 to 1.7 percent.

TABLE 1.—ELDERLY POPULATION AS PERCENT OF TOTAL POPULATION AND DISTRIBUTION OF ELDERLY BY AGE AND SEX, SELECTED YEARS 1940 TO 2025, AS OF JULY 1

	1940	1950	1960	1970	1980	1990[1]	2000[1]	2025[1]
Population 65 years and older (in thousands)	9,194	12,706	17,094	20,741	26,102	31,911	35,626	60,868
Population age 65 and older as a percent of total population	6.7	8.0	9.0	9.6	11.1	12.4	12.9	19.7
Population age 75 and older as a percent of total population	2.1	2.7	3.1	3.8	4.4	5.3	6.2	8.4
Population age 85 and older as a percent of total population	.3	.4	.5	.7	1.0	1.3	1.7	2.3
Certain age and sex groupings as a percent of the population 65 years and older:								
Total 65 years and older	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Men 65 and older	48.5	46.8	44.6	41.5	40.3	40.6	40.8	43.4
Men 65 to 74	34.2	32.1	30.4	26.5	26.3	25.7	23.6	27.2
Men 75 to 84	12.5	12.7	12.0	12.5	11.3	12.0	13.5	12.7
Men 85 and older	1.8	2.0	2.2	2.5	2.7	2.9	3.7	3.5
Women 65 and older	51.5	53.2	55.4	58.5	59.7	59.4	59.2	56.6
Women 65 to 74	34.3	34.4	35.6	34.0	33.9	31.8	28.2	30.1
Women 75 to 84	14.5	15.7	16.3	19.6	19.3	20.1	21.4	18.3
Women 85 and older	2.5	3.1	3.5	4.9	6.5	7.5	9.6	8.2

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[1] Projection.

Note: Population data for 1940 and 1950 include coterminous U.S. only; 1960 and 1970 refer to total U.S. population; 1980 to 2025 refer to total U.S. plus the outlying areas and include an adjustment for the population under count.

Source: 1940 to 1970, U.S. Bureau of the Census, U.S. Census of Population, 1940, 1960, and 1970; 1980 to 2025, 1987 Annual Reports of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, and unpublished estimates from the Office of the Actuary, Social Security Administration.

TRENDS IN LIFE EXPECTANCY

Table 2 presents data on life expectancies both at birth and at age 65 for men and women. These data cover the historical period 1900 through 1980, and the projected period 1990 through 2060. On average, a female born in 1900 could expect to live 48 years; a female born in 1980 could expect to live more than 77 years. Life expectancies at birth have increased so dramatically primarily because infant and child mortality rates have decreased, but also because individuals who live to adulthood are living longer. A male reaching age 65 in 1900 could expect to live another 11 years on average; a male reaching age 65 in 1980 could expect to live another 14 years. Life expectancies at birth and at age 65 are expected to continue to increase.

TABLE 2.—ACTUAL AND PROJECTED LIFE EXPECTANCIES AT BIRTH AND AT AGE 65 FOR MEN AND WOMEN: 1900–2060

Year	Life expectancy at birth		Life expectancy at age 65	
	Male	Female	Male	Female
Actual:				
1900	46.3	48.3	11.3	12.0
1910	48.4	51.8	11.4	12.1
1920	53.6	54.6	11.8	12.3
1930	58.1	61.6	11.8	12.9
1940	60.8	65.2	11.9	13.4
1950	65.6	71.1	12.8	15.1
1960	66.6	73.1	12.9	15.9
1970	67.1	74.7	13.1	17.1
1980	70.0	77.5	14.1	18.3
Projected:				
1990	72.1	79.0	15.0	19.4
2000	73.5	80.4	15.7	20.3
2010	74.4	81.3	16.2	21.0
2020	74.9	81.8	16.6	21.4
2030	75.4	82.3	17.0	21.8
2040	75.9	82.8	17.3	22.3
2050	76.4	83.3	17.7	22.7
2060	76.8	83.8	18.1	23.1

Source: 1900 to 1980: At Birth: National Center for Health Statistics. Vital Statistics of the United States, 1980. Vol II—Mortality. Hyattsville, MD. 1985. At Age 65: Social Security Administration. Social Security Area Population Projections. 1985. Actuarial Study No. 95. SSA Pub. No. 11-11542. October 1985. 1990 to 2060: U.S. Bureau of the Census. Projections of the Population of the United States, by Age, Sex, and Race: 1983 to 2080. Current Population Reports. Series P-25. No. 1018 Washington, DC. January, 1989. Table B-5.

MARITAL STATUS AND LIVING ARRANGEMENTS

Tables 3 and 4 present information on the marital status and living arrangements of noninstitutionalized aged individuals for 1970, 1980 and 1987.

Perhaps the most striking statistics are those which apply to elderly women. In each of the 3 years, roughly 40 percent of elderly women ages 65 to 74, and roughly 70 percent of elderly women ages 75 and over, were widows. Because the size of the elderly population grew between 1970 and 1987, this implies increasing numbers of widowed elderly women in the United States. There were 5.9 million widowed women over age 65 in 1970 and 8.1 million by 1987, representing a 36-percent increase. However, the percentage of women age 65 and over who are widowed has declined from 54.6 percent in 1970 to 49.2 percent in 1987; a 10-percent decrease.

A large and increasing fraction of all noninstitutionalized widowed women live alone. Over 68 percent of widowed women lived alone in 1987, compared with 56 percent in 1970. As a result of this increase, the number of widowed women living alone has grown even faster than the overall number of widowed women. Between 1970 and 1987, the number of widowed women living alone increased 68 percent, from 3.3 to 5.6 million.

TABLE 3.—MARITAL STATUS OF AGED INDIVIDUALS, [1] BY SEX AND AGE, 1970, 1980, AND 1987

	1970 [2]		1980 [3]		1987	
	65 to 74	75 and over	65 to 74	75 and over	65 to 74	75 and over
Men:						
Number (in thousands)	5,333	3,031	6,459	3,234	7,608	3,970
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Married, wife present	74.6	57.5	79.4	67.7	79.7	65.9
Married, wife absent	3.0	4.0	2.2	1.7	1.8	2.9
Widowed	11.0	30.4	8.5	24.0	9.0	23.6
Divorced	2.9	1.5	4.4	2.2	4.8	3.2
Never married	8.5	6.6	5.4	4.4	4.7	4.3
Women:						
Number (in thousands)	6,741	4,608	8,549	5,411	9,624	6,773
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Married, husband present	43.8	18.9	48.1	22.1	51.0	22.4
Married, husband absent	1.6	1.9	2.0	1.2	2.0	1.4
Widowed	43.7	70.5	40.3	68.0	36.7	67.0
Divorced	3.0	1.3	4.0	2.3	5.5	2.7
Never married	7.9	7.4	5.6	6.4	4.8	6.4

[1] Civilian noninstitutional population only.

[2] Estimates based on weights derived from the 1960 decennial census.

[3] Estimates based on weights derived from the 1970 decennial census.

Note: Details may not add to totals due to rounding.

Source: U.S. Bureau of the Census, Current Population Reports, series P–20, Nos. 212, 365, and 423.

TABLE 4.—LIVING ARRANGEMENTS OF PERSONS AGED 65 AND OVER,[1] 1970, 1980, AND 1987

[Civilian noninstitutionalized population, number in thousands]

Living arrangement	Total 65 and over	Percent	Widowed men	Percent	Widowed women	Percent
Total:						
1970 [2]	19,061	100.0	1,333	100.0	5,946	100.0
1980 [3]	24,194	100.0	1,342	100.0	7,295	100.0
1987	27,975	100.0	1,622	100.0	8,070	100.0
In families:						
1970 [2]	13,347	70.0	499	37.4	2,386	40.1
1980 [3]	16,355	67.6	385	28.7	2,194	30.1
1987	18,779	67.1	493	30.4	2,272	28.2
Living alone:						
1970 [2]	5,071	26.6	708	53.1	3,309	55.7
1980 [3]	7,328	30.3	893	66.5	4,916	67.4
1987	8,511	30.4	1,011	62.3	5,557	68.9
Other:						
1970 [2]	645	3.4	124	9.3	251	4.2
1980 [3]	511	2.1	65	4.8	186	2.5
1987	685	2.4	118	7.3	241	3.0

[1] Excludes persons in institutions (nursing homes, etc.). The number of such persons age 65 years and over was estimated to be 0.8 million in 1970, and 1.3 million in 1985.

[2] Estimates based on weights derived from the 1970 decennial census.

[3] Estimates based on weights derived from the 1980 decennial census.

Source: Bureau of the Census, Current Population Reports, P–20, No. 376 and unpublished data.

LABOR FORCE PARTICIPATION

Table 5 presents information on the labor force participation rates of men and women ages 55 and over for selected years between 1950 and 1988. Since 1950, the labor force participation rate for men in this age group has steadily declined. For men ages 55 to 64, the rate has declined from 87 to 67 percent. For men ages 65 and over, the rate has declined from 46 to 17 percent. The trend looks different for women. The participation rate for women ages 55 to 64 has increased from 27 percent in 1950 to 44 percent in 1988. The rate for women ages 65 and over has decreased from 10 percent in 1950 to 8 percent in 1988.

TABLE 5.—CIVILIAN LABOR FORCE PARTICIPATION RATES [1] OF PERSONS 55 YEARS AND OVER, BY AGE AND SEX, SELECTED YEARS, 1950–88

Age	1950	1955	1960	1965	1970	1975	1980	1985	1987	1988
Men:										
55 to 64	86.9	87.9	86.8	84.6	83.0	75.8	72.3	67.9	67.6	67.0
55 to 59	(2)	92.5	91.6	90.2	89.5	84.4	81.9	79.6	79.7	79.3
60 to 64	(2)	82.5	81.1	78.0	75.0	65.7	61.0	55.6	54.9	54.4
60 to 61	(2)	(2)	(2)	84.8	82.6	75.2	71.8	68.9	67.6	67.0
62 to 64	(2)	(2)	(2)	73.2	69.4	58.8	52.8	46.1	46.0	45.4
65 and over	45.8	39.6	33.1	27.9	26.8	21.7	19.1	15.8	16.3	16.5
Women:										
55 to 64	27.0	32.5	37.2	41.4	43.0	41.0	41.5	42.0	42.7	43.5
55 to 59	(2)	35.6	42.2	47.1	50.4	47.9	48.6	50.3	52.2	53.3
60 to 64	(2)	29.0	31.4	34.0	36.1	33.3	33.3	33.4	33.2	33.8
60 to 61	(2)	(2)	(2)	40.4	41.4	39.5	39.8	40.3	41.0	41.7
62 to 64	(2)	(2)	(2)	29.5	32.3	29.0	28.6	28.7	27.8	28.5
65 and over	9.7	10.6	10.8	10.0	9.7	8.3	8.1	7.3	7.4	7.9

[1] Civilian labor force as percent of civilian population.

[2] Data not available.

Source: Monthly Labor Review, November 1979, 1981 Employment and Training Report of the President; January issue of Employment and Earnings; and unpublished data from the Bureau of Labor Statistics.

Poverty Status of the Elderly [1]

Table 2 in Appendix I shows that the elderly have a lower incidence of poverty than does the population as a whole. In 1987, 12.2 percent of the noninstitutionalized aged were poor, or 3.5 million individuals. This compares to the overall poverty rate of 13.5 percent. In spite of the slightly lower incidence of poverty, poverty rates among the aged vary considerably.

Table 6 presents information on the poverty status of elderly individuals by sex, race and family status. The poverty rate for aged women was almost twice the poverty rate for aged men in 1987. The poverty rate among the black aged was higher in 1987 than that of the white aged—24.6 percent of black aged men and 40.2 percent of black aged women were poor, compared with 6.8 percent of white men and 12.5 percent of white women.

Unrelated aged individuals had much higher poverty rates than aged persons living in families. White unrelated individuals had lower poverty rates than black unrelated individuals.

Table 7 presents additional information on the poverty status of the elderly, this time broken down by sex and marital status. This table shows that some of the difference in the incidence of poverty between aged men and aged women appears to be due to differences in marital status. Comparing married men and women, the incidence of poverty is essentially the same at each age. Among aged men, poverty rates are highest among those who are not married and among men ages 85 and over. Among aged women, poverty rates are highest among those who are divorced or separated, followed by women who are never married and those who are widowed.

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[1] Please see Appendix I for additional poverty data related to the elderly. Appendix I provides details on how poverty is measured, statistics on trends in the overall poverty rate, and comparisons of the poverty rate among selected demographic groups, including the elderly.

TABLE 6.—CHANGES IN POVERTY STATUS OF ALL PERSONS, AND THE ELDERLY BY SEX, RACE, AND FAMILY STATUS, SELECTED YEARS: 1959 TO 1987

[Percent below the poverty level]

	1959	1966	1970	1975	1980	1985 [1]	1986 [2]	1987 [2]
All persons	22.4	14.7	12.6	12.3	13.0	14.0	13.6	13.5
Persons 65 years old and over								
Both sexes	35.2	28.5	24.5	15.3	15.7	12.6	12.4	12.2
Men	NA	23.7	19.0	11.4	10.9	8.5	8.5	8.5
Black men [3]	NA	52.2	41.3	31.0	31.5	26.5	24.2	24.6
Heads of households	60.4	50.0	39.2	26.0	25.0	21.0	19.4	18.7
Unrelated individuals	77.5	72.7	59.7	51.8	45.4	40.6	39.8	42.2
White men [3]	NA	21.3	17.0	9.5	9.0	6.9	6.9	6.8
Heads of households	26.8	18.7	13.8	7.1	6.9	4.9	4.9	5.0
Unrelated individuals	56.8	41.3	36.0	23.8	21.1	17.6	16.7	15.6
Women	NA	32.1	28.4	18.1	19.0	15.6	15.2	14.9
Black women [3]	NA	57.3	53.2	40.2	42.6	34.8	35.5	40.2
Wives	57.7	51.9	41.8	23.8	23.5	17.5	14.4	19.5
Unrelated individuals	84.6	83.9	79.2	65.8	66.6	55.4	59.7	62.8
White women [3]	NA	30.3	26.5	16.1	16.8	13.8	13.3	12.5
Wives	28.9	20.2	14.0	7.2	7.0	4.7	4.7	4.7
Unrelated individuals	61.8	55.2	47.5	29.1	29.3	24.3	23.7	21.9

[1] The poverty definition used to produce the estimates for 1981 and years after changed slightly from previous years. If the new method were used for 1980, the heading "All persons" would read 13.2 percent below the poverty level, not 13.0 percent. In 1984, a new method of imputing missing values was utilized and new population weights were used. A comparable number for 1983 of the poverty rate for all persons was 15.3 percent.

[2] 1986 and 1987 figures prepared by the Congressional Research Service, using the March 1988 Current Population Survey computer tapes.

[3] Total includes other types of family members not separately designated.

NA—Not available.

Sources: U.S. Bureau of the Census, Current Population Reports series P–60 referring to the population below the poverty level, various years in series; unpublished data.

TABLE 7.—POVERTY RATES AMONG PERSONS AGE 65 AND OLDER BY AGE, SEX, AND MARITAL STATUS: 1987

	65 and over	65 to 74	75 to 84	85 and over
Male total	8.5	6.9	11.0	13.9
Married	6.0	5.0	8.1	9.6
Widowed	14.6	11.8	15.0	19.9
Divorced/separated	19.2	16.5	30.1	NA
Never married	17.6	16.7	22.9	NA
Female total	14.9	12.1	18.1	21.6
Married	6.2	5.3	9.3	6.7
Widowed	20.0	18.6	20.8	22.1
Divorced/separated	26.4	25.4	26.1	NA
Never married	23.3	18.2	27.5	32.1

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

NA—Not available due to unreliability of estimate. Percentage base represents fewer than 75,000 persons.

INCOME SOURCES OF THE ELDERLY

As noted in the previous subsection, most elderly individuals had incomes above the poverty threshold in 1987, although a sizeable minority was poor. Tables 8 through 18 provide insight into the sources and distribution of income among the elderly population. The percentage of the aged represented in the various tables is shown below.

CHARACTERISTICS OF AGED UNITS: 1988

Description of unit	Number of units (in thousands)	Number of persons age 65 and older (in thousands)	Percent of elderly
All persons in unit age 65 and over	15,159	21,118	70.4
At least one person age 65 or older	21,696	28,527	95.0
Family head age 65 or older	19,841	26,511	88.3
Number of aged not represented by the current population survey		1,488	5.0

Note: Units are comprised of families and unrelated individuals.

Source: March 1988 Current Population Survey. Table prepared by CRS.

Table 8 provides information for 1987 on the percentage of non-institutional elderly units (all members ages 65 and over) with income from various sources, broken down by income level. Note that the bottom rows of table 8 present characteristics of persons in elderly units, by income level of the unit. The majority of these units has combined income above the poverty level (83 percent). As one would expect, the fraction of units with income from earnings generally rises as income rises. For example, almost 5 percent of the units with income less than the poverty threshold had income from earnings, compared with 19 percent of the units with income above the poverty threshold. Although overall 95 percent of the units had income from Social Security, only 59 percent of those with income less than 50 percent of the poverty threshold had income from Social Security. Generally, poor elderly units are less likely than nonpoor elderly units to receive income from pensions and from interest and dividends, and more likely to receive income from AFDC, SSI, general assistance, food stamps, and housing assistance.

Table 9 describes the percent of the total income of elderly units which is derived from various sources, broken down by income level. This table shows that 1.0 percent of total family income for poor units is comprised of earnings, compared with 11.4 percent of nonpoor units. Pension income accounts for 2.0 percent of total income received by poor units, while it comprises 17.7 percent for nonpoor units. Social Security and SSI income together represents 81.1 percent of total income for poor units and approximately 41.2 percent for nonpoor units. Interest and dividend income represents 3.7 percent of total income for poor units and 27.7 percent for nonpoor units.

Tables 10 and 11 present the same data as tables 8 and 9, but break all units with all members 65 or over into married couples and unrelated individuals, respectively. Table 10 shows that 5.4 percent of all married couples with all members 65 or over are poor. Social Security and railroad retirement provide 73 percent of total income for poor elderly couples, while providing only 40.2 percent of total income for nonpoor couples, who also have substantial shares of income from interest and dividends, pensions, and earnings. Table 11 shows that 24 percent of unrelated individuals age 65 or over are poor. Almost one-fourth (23.3 percent) of poor elderly unrelated individuals receive housing assistance, which accounts for 9.3 percent of the total income of this group.

Table 12 shows how the demographic characteristics of elderly households with all members are 65 or over and the composition of their incomes have changed between 1979 and 1987. Although the total elderly population is growing—from 12.4 million families in 1979 to 15.2 million families in 1987—the number of poor elderly families has actually decreased over this time period. However, the percentage of elderly poor families in which the head is 75 and over has increased significantly, from 48.7 percent in 1979 to 55.0 percent in 1987. The percentage of elderly receiving income from pensions has increased for both the poor and the nonpoor, with an increase in receipts from 33 percent in 1979 to 41 percent in 1987 for the total elderly population. This increase is also reflected in the increase of the percentage of total income from pensions, from 14.1 percent in 1979 to 16.9 percent in 1987. Over the same time period the percentage of elderly receiving income from AFDC, SSI, and general assistance has decreased from 10.0 percent to 6.7 percent. The percentage of all elderly receiving housing assistance has increased, most significantly the percentage of poor elderly, which rose from 11.9 percent in 1979 to 21.0 percent in 1987. This is also reflected in the increase of the percentage of total incomes from 5.5 percent in 1979 to 8.4 percent in 1987. Overall, average income of the total elderly population increased in real terms from $9,906 to $12,054.

Table 13 provides the same data as tables 8 and 9, with income levels subdivided by cash income in dollars rather than by the ratio of total income to the poverty threshold. Table 14 focuses on units in which *any* member is age 65 or over. Table 15 provides information on the percentage distribution of selected sources of income between poor and nonpoor units in which at least one member is age 65 or over. These data include families with an aged member and elderly individuals living alone.

TABLE 8.—PERCENT OF UNITS [1] WITH ALL MEMBERS AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[2] 1987

	Ratio of total income to poverty threshold								Poor	Nonpoor	Total
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Number of units (in thousands)	350	662	1,540	1,686	1,370	2,125	3,048	4,378	2,552	12,607	15,159
Percent of units	2.3	4.4	10.2	11.1	9.0	14.0	20.1	28.9	16.8	83.2	100.0
Earnings	6.9	3.9	4.5	5.6	8.1	14.0	18.9	30.3	4.7	19.1	16.7
OASDI, railroad retirement	59.0	85.7	95.5	97.2	98.5	97.2	97.9	94.5	87.9	96.6	95.1
Pensions	11.2	6.7	7.1	13.6	25.0	42.6	58.0	63.4	7.5	47.8	41.0
Unemployment compensation, workers compensation, veterans payments	2.7	5.0	5.7	9.6	4.7	6.6	6.4	6.2	5.1	6.6	6.4
AFDC, SSI, general assistance	11.9	24.8	31.4	8.0	7.3	1.8	1.1	.5	27.0	2.6	6.7
Child support, alimony	3.8	2.1	1.6	2.6	2.4	2.0	2.7	3.8	2.0	2.9	2.8
Interest, dividends	32.5	32.5	30.9	49.2	62.6	72.5	85.8	95.4	31.5	79.5	71.4
Food stamps	9.8	22.3	23.4	6.8	2.1	.5	.1	.3	21.2	1.3	4.7
Housing assistance	10.1	19.6	24.0	16.4	11.3	6.5	2.2	1.1	21.0	5.4	8.1
CHARACTERISTICS OF PERSONS											
Number of people (thousands)	433	721	1,713	1,977	1,711	2,977	4,579	7,009	2,866	18,252	21,118
Percent white non-Hispanic [3]	79.0	69.5	74.6	85.4	90.6	91.5	93.9	97.1	74.0	93.5	90.9
Percent black non-Hispanic	13.2	26.6	19.6	11.3	7.2	6.6	4.8	1.9	20.4	4.9	7.0
Percent Hispanic	7.8	3.9	5.9	3.3	2.1	1.9	1.4	1.0	5.7	1.6	2.1
Percent unrelated individuals	62.0	84.0	79.8	70.9	60.2	43.4	34.0	25.9	78.2	38.8	44.2
Percent female	68.5	78.3	75.0	71.4	69.7	62.5	59.4	56.2	74.8	61.0	62.8
Percent age 75 and over	60.5	52.4	54.7	54.1	52.5	45.4	39.4	32.9	55.0	40.7	42.7
Percent female and age 75 and over	42.4	40.2	40.8	38.9	36.5	26.8	22.1	17.8	40.9	24.4	26.6

[1] Includes unrelated individuals (elderly living alone).

[2] Based on census ("Orshansky") poverty levels.

[3] Includes "other" races.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 9.—PERCENT OF TOTAL UNIT INCOME [1] FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[2] FOR UNITS WITH ALL MEMBERS AGE 65 OR OVER, 1987

	Ratio of total income to poverty threshold—poverty ratio								Poor	Nonpoor	Total
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	1.1	1.5	.9	1.4	2.3	3.9	6.0	15.6	1.0	11.4	10.9
OASDI, railroad retirement	52.2	66.2	72.7	79.7	77.5	69.6	55.8	26.3	70.3	40.8	42.2
Pensions	5.6	2.6	1.6	2.7	5.5	10.9	17.5	20.7	2.0	17.7	16.9
Unemployment compensation, workers compensation, veterans payments	1.5	1.8	1.5	2.3	1.3	2.0	1.5	.8	1.6	1.1	1.1
AFDC, SSI, general assistance	12.9	12.9	10.1	3.2	2.0	.8	.2	.0	10.8	.4	.9
Child support, alimony	3.1	.3	.1	.3	.3	.4	.4	.5	.3	.5	.5
Interest, dividends	11.8	4.4	3.1	5.9	8.7	11.6	18.4	36.0	3.7	27.7	26.6
Food stamps [3]	4.2	2.2	1.6	.3	.1	.0	.0	.0	1.9	.0	.1
Housing assistance [3]	7.5	8.0	8.6	4.1	2.3	.9	.1	.0	8.4	.4	.8
Mean cash income per family member [4]	$1,103	$3,787	$4,898	$5,699	$6,521	$7,559	$10,111	$21,652	$4,045	$13,312	$12,054
Mean family size	1.2	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.1	1.4	1.4

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[1] Only for units with non-negative income.

[2] Based on census ("Orshansky") poverty levels.

[3] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

[4] Includes cash values of food stamps and housing assistance.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 10.—PERCENT OF MARRIED COUPLES WITH ALL MEMBERS AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, AND PERCENT OF TOTAL FAMILY INCOME [1] FROM EACH SOURCE, BY POVERTY [2] STATUS: 1987

	Percent of couples with income from each source			Percent of family income from each source		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Number of married couples (in thousands)	5,485	298	5,187	NA	NA	NA
Percent of married couples	100.0	5.4	94.6	NA	NA	NA
Earnings	23.6	4.3	24.8	12.7	1.5	12.8
OASDI, railroad retirement	98.1	90.9	98.5	40.6	73.0	40.2
Pensions	54.6	12.4	57.0	19.2	3.8	19.4
Veterans, UC, and other comp.	7.1	4.6	7.3	.9	1.5	.9
AFDC, SSI, general assistance	2.5	18.4	1.6	.3	9.2	.2
Child support, alimony	3.1	4.8	3.0	.4	0.8	.4
Interest, dividends	81.4	42.7	83.6	25.9	7.0	26.1
Food stamps [3]	1.6	14.8	.8	0	1.7	0
Housing assistance [3]	1.8	4.2	1.7	.1	1.6	.1

[1] Only for couples with non-negative income. [2] Based on Orshansky poverty levels.

[3] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 11.—PERCENT OF UNRELATED INDIVIDUALS [1] AGE 65 OR OVER WITH INCOME AND PERCENT OF TOTAL INCOME [2] FROM EACH SOURCE, BY POVERTY STATUS:[3] 1987

	Percent of units with income from each source			Percent of unit income from each source		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Number of individuals (in thousands)	9,330	2,241	7,089	NA	NA	NA
Percent of individuals	100.0	24.0	76.0	NA	NA	NA
Earnings	12.7	4.7	15.2	9.0	1.0	9.8
OASDI, Railroad retirement	93.2	87.5	95.0	43.9	70.0	41.5
Pensions	33.0	6.9	41.2	14.4	1.7	15.6
Veterans, UC, and other comp.	5.8	5.2	6.0	2.4	1.6	1.4
AFDC, SSI, general assistance	8.9	28.2	2.8	1.5	11.1	.6
Child support, alimony	2.7	1.7	3.0	.6	.2	.6
Interest, dividends	65.5	29.9	76.7	27.4	3.3	29.7
Food stamps [4]	6.6	22.2	1.6	.2	1.9	0
Housing assistance [4]	11.9	23.3	8.3	1.5	9.3	.8

[1] Elderly living alone. [2] Only for individuals with non-negative income.

[3] Based on Orshansky poverty levels.

[4] The cash values of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 12.—TRENDS IN DEMOGRAPHIC CHARACTERISTICS AND INCOME COMPOSITION OF ELDERLY UNITS [1] WITH ALL MEMBERS AGE 65 OR OVER, BY POVERTY STATUS,[2] 1979–1987

	Poor		Nonpoor		Total	
	1979	1987	1979	1987	1979	1987
Number of families (in thousands)	2,619	2,552	9,786	12,607	12,405	15,159
Number of persons (in thousands)	3,002	2,866	14,301	18,252	17,303	21,118
Family Characteristics:						
Percent white non-Hispanic [3]	79.5	74.0	94.0	93.5	91.5	90.9
Percent black non-Hispanic	16.8	20.4	4.7	4.9	6.8	7.0
Percent Hispanic	3.6	5.7	1.3	1.6	1.7	2.1
Percent female	73.9	74.8	61.4	61.0	63.6	62.8
Percent age 75 and over	48.7	55.0	37.5	40.7	39.4	42.7
Percent female age 75 and over	36.1	40.9	21.8	24.4	24.3	26.6
Percent unrelated individuals	74.7	78.2	37.8	38.8	44.2	44.2
Average family size	1.1	1.1	1.5	1.4	1.4	1.4
Percent with income from various sources:						
Earnings	5.8	4.7	22.9	19.1	19.2	16.7
OASDI, railroad retirement	86.0	87.9	94.8	96.6	92.9	95.1
Pensions	5.2	7.5	40.5	47.8	33.0	41.0
Unemployment compensation, workers compensation, veterans payments	5.7	5.1	7.5	6.6	7.1	6.4
AFDC, SSI, general assistance	28.4	27.0	5.1	2.6	10.0	6.7
Child support, alimony	1.8	2.0	2.5	2.9	2.3	2.8
Interest, dividends	36.9	31.5	81.3	79.5	71.9	71.4
Food stamps	20.6	21.2	1.8	1.3	5.8	4.7
Housing assistance	11.9	21.0	4.6	5.4	6.1	8.1
Percent of total income from:						
Earnings	1.3	1.0	14.6	11.4	13.7	10.9
OASDI, railroad retirement	71.1	70.3	41.5	40.8	43.5	42.2
Pensions	1.8	2.0	14.9	17.7	14.1	16.9
Unemployment compensation, workers compensation, veterans payments	2.1	1.6	1.4	1.1	1.4	1.1
AFDC, SSI, general assistance	11.1	10,8	.8	.4	1.5	.9
Child support, alimony	.4	.3	.5	.5	.5	.5
Interest, dividends	4.2	3.7	25.5	27.7	24.1	26.6
Food stamps [4]	2.5	1.9	0	0	.2	.1
Housing assistance [4]	5.5	8.4	.8	.4	1.1	.8
Mean income per family member [5]	$3,775	$4,045	$11,193	$13,312	$9,906	$12,054

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[1] Includes unrelated individuals (elderly living alone). [2] Based on census ("Orshansky") poverty levels. [3] Includes "other races." [4] The cash value of food stamps and housing assistance were estimated using their market values. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income. [5] Includes cash value of food stamps and housing assistance; 1979 dollars converted to 1987 dollars by use of the CPI–X1 price index.

Source: March 1980, 1988 Current Population Surveys (CPS). Table prepared by CRS.

TABLE 13.—PERCENT OF UNITS [1] WITH ALL MEMBERS AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, AND PERCENT OF TOTAL UNIT INCOME [2] FROM VARIOUS SOURCES, BY FAMILY INCOME, 1987

	Total family income						
	Under $10,000	$10,000 to $19,999	$20,000 to $29,999	$30,000 to $49,999	$50,000 to $74,999	$75,000 and over	Total
Number of units (in thousands)	6,448	4,740	2,030	1,347	388	205	15,159
Number of persons (in thousands)	7,291	7,060	3,364	2,328	710	365	21,118
Family Characteristics:							
Percent white non-Hispanic [3]	83.2	92.7	97.1	97.0	98.3	98.7	90.9
Percent black non-Hispanic	13.2	5.6	2.0	2.3	.1	.3	7.0
Percent Hispanic	3.7	1.7	1.0	.8	1.5	1.0	2.1
Percent female	73.6	59.8	55.6	54.2	51.0	51.6	62.8
Percent age 75 and over	54.1	41.1	31.7	32.9	31.0	29.4	42.7
Percent female age 75 and over	39.9	22.9	16.9	16.0	14.6	13.1	26.6
Percent unrelated individual	77.0	34.7	21.7	17.2	12.8	12.8	44.2
Average family size	1.1	1.5	1.7	1.7	1.8	1.8	1.4
Percent with income from:							
Earnings	7.0	17.3	27.4	30.4	43.8	58.9	16.7
OASDI, railroad retirement	93.6	97.6	95.6	95.0	90.2	92.6	95.1
Pensions	17.7	52.7	66.0	65.7	62.7	51.4	41.0
Unemployment compensation, workers compensations, veterans payments	6.7	5.6	7.1	6.7	6.4	4.3	6.4
AFDC, SSI, general assistance	14.3	1.6	.5	.7	0	0	6.7
Child support, alimony	2.3	2.4	2.9	5.9	3.2	5.4	2.8
Interest, dividends	48.7	81.9	94.7	96.1	98.3	98.5	71.4
Food stamps	10.7	.3	.3	.1	0	.4	4.7
Housing assistance	16.1	3.2	.9	.6	.7	0	8.1

TABLE 13.—PERCENT OF UNITS [1] WITH ALL MEMBERS AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, AND PERCENT OF TOTAL UNIT INCOME [2] FROM VARIOUS SOURCES, BY FAMILY INCOME, 1987—Continued

	Total family income						
	Under $10,000	$10,000 to $19,999	$20,000 to $29,999	$30,000 to $49,999	$50,000 to $74,999	$75,000 and over	Total
Percent of total income from:							
Earnings	3.2	11.6	24.3	36.9	49.6	55.8	30.8
OASDI, railroad retirement	72.0	53.4	34.4	21.1	12.7	6.7	31.7
Pensions	4.8	15.0	18.9	17.3	13.3	8.6	14.0
Unemployment compensation, workers compensations, veterans payments	2.2	1.9	1.5	1.2	.6	.4	1.3
AFDC, SSI, general assistance	5.1	1.3	.4	.2	.2	0	.9
Child support, alimony	.4	.5	.6	.6	.7	.4	.5
Interest, dividends	7.2	16.0	19.8	22.8	22.9	28.0	20.1
Food stamps [4]	.9	.1	0	0	0	0	.1
Housing assistance [4]	4.1	.2	0	0	0	0	.5
Mean income per family member [5]	$5,707	$9,657	$14,660	$21,656	$32,674	$59,868	$12,054

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[1] Included unrelated individuals (elderly living alone).

[2] Only for units with non-negative income.

[3] Includes "other races."

[4] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

[5] Includes cash value of food stamps and housing assistance.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 14.—PERCENT OF UNITS [1] WITH ANY MEMBER AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, AND PERCENT OF TOTAL UNIT INCOME FROM EACH SOURCE, BY POVERTY [2] STATUS: 1987

	Percent of units with income from each source			Percent of unit income from each source		
	Total	Poor	Nonpoor	Total	Poor	Nonpoor
Number of units (in thousands)	21,696	3,115	18,581	NA	NA	NA
Number of aged individuals	28,527	3,491	25,036	NA	NA	NA
Percent of units	100.0	14.4	85.6	NA	NA	NA
Earnings	33.8	10.4	37.7	30.8	4.0	31.7
OASDI, railroad retirement	93.3	87.5	94.2	31.7	66.5	30.5
Pensions	41.1	8.2	46.6	14.0	2.1	14.4
Unemployment compensation, workers compensation, veterans payments	9.0	5.5	9.5	1.3	1.8	1.3
AFDC, SSI, general assistance	7.8	28.6	4.3	.9	11.9	.5
Child support, alimony	4.3	3.2	4.5	.5	.8	.5
Interest, dividends	71.1	29.8	78.0	20.1	3.2	20.7
Food stamps [3]	5.0	23.4	1.9	.1	2.8	0
Housing assistance [3]	6.2	19.4	4.0	.5	6.9	.3

[1] Includes both families and unrelated individuals.

[2] Based on census ("Orsharnsky") poverty levels.

[3] The cash values of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status. Cash values of food stamps and housing assistance are included in total income for calculating the percentage share of total income.

NA—Not applicable.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 15.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME RECEIVED BY UNITS WITH AN AGED MEMBER [1] BY FAMILY MONEY INCOME AS A RATIO OF THE POVERTY LEVEL, 1987

[In percent]

Type of income	Percent received by units with aged individuals	Ratio of total income to poverty threshold										
		Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total income	16.4	100.0	0.2	0.8	2.1	2.9	3.2	7.0	15.9	68.0	3.0	97.0
Social security and railroad retirement	83.6	100.0	.3	1.7	5.1	7.2	7.1	13.4	23.4	41.9	7.0	93.0
SSI	38.3	100.0	2.0	12.6	28.0	14.0	19.4	13.5	10.0	10.4	42.7	57.3
AFDC and general assistance	4.8	100.0	8.7	9.1	26.7	9.2	15.2	12.0	8.6	10.4	44.5	55.5
Food stamps	8.3	100.0	8.8	24.4	34.7	13.3	7.6	4.1	4.3	2.8	67.9	32.1
Unemployment compensation, workers compensation, and veterans payments	22.2	100.0	.3	1.5	2.8	6.2	4.6	14.7	22.9	47.1	4.6	95.4
Wages, salaries, farm and self-employment	6.4	100.0	.0	.1	.3	.6	1.1	3.1	10.6	84.3	.4	99.6
Pensions	58.2	100.0	.0	.2	.3	.6	1.2	5.1	17.3	75.3	.5	99.5
Child support, alimony	7.6	100.0	.8	.7	3.2	1.9	3.1	9.8	15.7	64.8	4.8	95.2
Property income	46.9	100.0	.1	.2	.3	.8	1.3	3.3	11.1	83.0	.5	99.5

[1] Includes families with an aged member and aged unrelated individuals living alone.

Note: This table shows for families with at least one aged member the percentage of selected sources of income received by families classified by poverty level. The first number in the first column, 16.4 percent, means that 16.4 percent of all income accrues to families that include an aged member. The next number in the first row means 0.2 percent of all income received by these families accrues to those families that have an income of less than 50 percent of the poverty level.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

Tables 16 through 18 provide data from the Current Population Survey for 1987.[2] Table 16 shows the distribution of the share of total family income which is comprised of Social Security income. The tables include all units where the head is age 65 and over, including families and unrelated individuals as well. For example, for elderly units in poverty, Social Security represents over 90 percent of their income in 49.0 percent of such families. In less than 1 percent of elderly families with income three times the poverty level does Social Security income constitute more than 90 percent of total family income.

Table 17 presents similar information except that it shows the percent of family income derived from supplemental security income (SSI) and Social Security benefits combined.

Table 18 presents the number of families with an aged head with different combinations of SSI, Social Security or railroad retirement, and food stamp income. For families in poverty, 87.7 percent receive Social Security or railroad retirement, 25.7 percent receive SSI, and 23.4 percent receive food stamp benefits. Only 10.7 percent of elderly families under poverty receive all three types of income.

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[2] Withdrawals from savings are not included as income on the CPS. For the aged in particular, dissaving may provide an important means of maintaining a desired level of consumption.

TABLE 16.—SOCIAL SECURITY INCOME AS A PERCENT OF TOTAL UNIT INCOME,[1] BY RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD, FOR UNITS WITH A HEAD AGE 65 OR OVER, 1987

[In percent]

	Ratio of total income to poverty threshold										
	Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of units (thousands)	19,841	421	821	1,752	1,878	1,632	2,632	3,960	6,746	2,994	16,947
Number of individuals aged 65 and over (thousands)	26,126	497	871	1,942	2,195	1,982	3,503	5,549	9,587	3,311	22,815
Total (percent of units)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social Security as a percent of total income:											
0.1 to 24.9	16.8	1.4	1.9	1.3	1.9	2.4	3.3	9.2	41.1	1.5	19.5
25 to 49.9	25.2	8.5	6.4	6.6	6.3	11.0	15.2	33.6	41.0	6.8	28.4
50 to 79.9	26.3	11.2	17.0	26.1	22.2	32.9	44.8	44.6	9.9	21.5	27.1
80 to 89.9	6.9	3.3	8.2	10.5	13.1	17.1	12.9	5.4	.3	8.9	6.5
90 or more	19.0	[2] 33.7	52.8	50.8	53.7	34.6	20.0	4.2	.3	49.0	13.7
Percent of units with Social Security income	94.1	58.1	86.4	95.3	97.1	98.0	96.2	97.2	92.6	87.7	95.3
Percent of units without Social Security income	5.9	41.9	13.6	4.7	2.9	2.0	3.8	2.8	7.4	12.3	4.7

[1] For units with non-negative income only.

[2] The number 33.7 in the second column means that 33.7 percent of units with a head over age 65 with total incomes less than 50 percent of poverty depend upon Social Security benefits for 90 percent or more of their income.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 17.—SOCIAL SECURITY AND SUPPLEMENTAL SECURITY INCOME AS A PERCENT OF TOTAL UNIT INCOME,[1] BY RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD, FOR UNITS WITH A HEAD AGE 65 OR OVER, 1987

	Ratio of total income to poverty threshold									Poor	Nonpoor
	Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social Security and SSI as a percent of total income:											
0.1 to 24.9	16.7	1.4	2.0	1.3	1.9	1.8	3.2	9.2	40.9	1.5	19.4
25 to 49.9	24.3	7.7	3.9	2.8	4.5	9.5	14.6	33.3	41.2	3.8	28.0
50 to 79.9	24.3	8.5	10.3	13.3	19.3	31.4	43.9	44.9	9.9	11.8	26.6
80 to 89.9	6.4	3.7	7.3	7.0	13.2	15.7	12.7	5.4	.3	6.6	6.4
90 or more	23.4	[2]42.5	72.5	74.3	59.5	39.6	22.1	4.5	.4	69.4	15.2
Percent of families with Social Security and/or SSI income	95.2	63.8	96.0	98.8	98.3	98.0	96.5	97.4	92.7	93.2	95.5
Percent of families without Social Security or SSI income	4.8	36.2	4.0	1.2	1.7	2.0	3.5	2.6	7.3	6.8	4.5

[1] For units with non-negative income only.

[2] The number 42.5 in the second column means that 42.5 percent of families with a head over age 65 with total incomes less than 50 percent of poverty depend upon Social Security and/or SSI benefits for 90 percent or more of their income.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

TABLE 18.—RECEIPT OF SOCIAL SECURITY, SUPPLEMENTAL SECURITY INCOME, FOOD STAMPS, AND COMBINATIONS THEREOF, AMONG UNITS[1] WITH AN AGED HEAD CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY THRESHOLD: 1987

Type of benefit	Less than 100 percent of poverty threshold		100 to 149.9 percent of poverty threshold	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Social Security[2]	2,627	87.7	3,424	97.5
SSI	769	25.7	309	8.8
Food stamps	702	23.4	244	7.0
Social Security only[3]	1,764	58.9	2,966	84.5
SSI only[3]	56	1.9	21	.6
Food stamps only[3]	18	.6	1	....
Social Security and food stamps[4]	256	8.5	169	4.8
Social Security and SSI[4]	286	9.6	215	6.1
SSI and food stamps[4]	106	3.5	1	....
All three income sources	322	10.7	73	2.1
No Social Security, SSI, or food stamps	187	6.2	64	1.8
Total	2,994	....	3,510	....

[1] Includes unrelated individuals and elderly individuals living alone.

[2] Includes railroad retirement.

[3] Row 4 which is labeled "social security only" means the family only receives social security and does not receive SSI or food stamps. The family could be receiving other types of income. The same is true of rows 5 and 6.

[4] Family receives only the two types of income specified but not the third. The family could be receiving other sources of income than the three mentioned.

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

PER CAPITA INCOME BY AGE OF HEAD

Table 19 shows the average income per household member before and after taxes for calendar years 1980 and 1986. Taxes simulated in the study included Federal income taxes, State individual income taxes, property taxes on owner-occupied housing, and payroll taxes. They do not include sales or excise taxes.

As shown in the table, the average after-tax income of households headed by elderly individuals is greater than the average after-tax income of households headed by young individuals 15 to 44. The amount of taxes paid as a percent of income (per household member) ranged in 1986 from 15.2 percent of income in households headed by someone ages 65 or older to 25.8 percent of income in households where the head was ages 45 to 49. In analyzing data on income per household member across different family types, it should be noted that most households headed by someone ages 65 or over are one- or two-member households; thus, housing consumes a greater proportion of the income of any one member of the household.

TABLE 19.—MEAN REAL INCOME BEFORE AND AFTER TAX PER HOUSEHOLD MEMBER, 1980 AND 1986

	1980 [1] income per household member		Taxes as a percent of income	1986 income per household member		Taxes as a percent of income	After tax percent change 1980–86
	Before taxes	After taxes		Before taxes	After taxes		
Age of householder:							
15–24	8,419	6,855	18.6	7,865	6,452	18.0	−5.9
25–29	9,601	7,492	22.0	10,206	7,953	22.1	6.2
30–34	9,276	7,091	23.6	10,184	7,775	23.7	9.6
35–39	9,302	6,983	24.9	10,750	8,082	24.8	15.7
40–44	9,709	7,272	25.1	11,699	8,771	25.0	20.6
45–49	10,853	8,093	25.4	12,993	9,639	25.8	19.1
50–54	11,890	8,846	25.6	13,861	10,293	25.7	16.4
55–59	13,596	10,076	25.9	14,259	10,673	25.1	5.9
60–64	12,830	9,882	23.0	14,211	10,872	23.5	10.0
65 and over	9,638	8,381	13.0	11,285	9,574	15.2	14.2
All households	10,272	7,936	22.7	11,552	8,894	23.0	12.1

[1] In 1986 dollars.

Source: Bureau of the Census Series P–23, After Tax Money Income Estimates of Households; No. 126, Table I; No. 157, Table 1.

HOUSING ARRANGEMENTS OF THE ELDERLY

Table 20 shows housing tenure for poor and nonpoor aged families and unrelated individuals. The table shows that the majority of poor families with an aged member (68 percent) and aged poor unrelated individuals (51 percent) owned their own home or lived with relatives in an owner occupied unit. In comparison, 88 percent of aged nonpoor families and 64 percent of aged nonpoor unrelated individuals owned their own home. Almost one in four (23.3 percent) poor aged unrelated individuals reported living in publicly supported housing (either public housing or rent subsidized housing). About 8 percent of aged nonpoor unrelated individuals lived in publicly supported housing.

TABLE 20.—HOUSING TENURE OF AGED, FAMILIES, AND UNRELATED INDIVIDUALS BY FAMILY TYPE AND POVERTY STATUS, 1987

	Total (in thousands)	Percent of total				
		Own housing	No cash rent	Rent housing		
				Total	Publicly supported	Not publicly supported
Any member age 65 or over:						
In families:						
Total	12,365	86.4	1.1	12.5	1.9	10.6
Poor	874	67.8	3.6	28.6	8.7	19.9
Nonpoor	11,492	87.8	1.0	11.2	1.3	9.9
Unrelated individuals:						
Total	9,330	60.8	3.6	35.6	11.9	23.7
Poor	2,241	50.5	4.9	44.6	23.3	21.4
Nonpoor	7,089	64.0	3.2	32.8	8.3	24.5

Source: March 1988 Current Population Survey (CPS). Table prepared by CRS.

FEDERAL SPENDING FOR THE ELDERLY [3]

Past growth in the size of the elderly population—and decisions to cover an increasing share of their needs through public progams—have significantly altered the shape of the Federal budget. As shown in table 21, between 1965 and 1985 spending for the elderly under major Federal transfer programs grew from about $63 billion to nearly $260 billion in constant 1985 dollars, or from about $3,400 per elderly person to more than $9,000 in constant dollars. During that period, spending for the elderly rose from 16 percent to 27 percent of all Federal outlays, or from about one-third to nearly one-half of all outlays for domestic programs—that is, spending other than for defense and net interest payments. Rela-

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[3] Source: Statement of Rudolph Penner, CBO, before the Subcommittee on Economic Resources, Competitiveness, and Security Economics, July 31, 1986.

tive to the economy, Federal spending for the elderly grew from 2.8 percent to 6.6 percent of the gross national product (GNP).

Tax benefits also play a major role in affecting the income available to the elderly after retirement, as demonstrated in the next subsection.

TABLE 21.—ESTIMATED FEDERAL SPENDING FOR THE ELDERLY UNDER SELECTED PROGRAMS: FISCAL YEARS 1965–1985

[In billions of dollars]

	1965	1971	1975	1980	1985
Social Security	(1)	27.1	51.8	81.2	140.4
Railroad retirement	(1)	1.7	2.8	3.6	4.7
Federal civilian retirement	(1)	2.3	5.5	7.8	13.7
Military retirement	(1)	.7	1.1	1.8	4.3
Benefits for coal miners [2]	(1)	.1	.2	1.3	1.5
Supplementary security income	(1)	[3] 1.4	1.8	2.3	3.2
Veterans pensions [4]	(1)	.9	1.5	3.3	5.4
Medicare	(1)	7.5	12.8	29.3	61.4
Medicaid	(1)	1.9	2.6	4.7	8.5
Food stamps [5]	(1)	.2	1.0	.5	.6
Housing assistance	(1)	.2	.4	2.3	[6] 4.5
Other [7]	(1)	NA	NA	6.1	10.3
Total	18.8	44.0	81.3	144.2	258.6
Total in 1985 dollars	62.6	113.1	158.5	191.0	258.6
Federal Spending for the Elderly Relative to Total Federal Outlays, the Size of the Elderly Population, and GNP					
Spending for the elderly:					
Per aged person, in 1985 dollars	3,390	5,500	6,980	7,430	9,060
As a percent of total Federal outlays	15.9	20.9	24.5	24.4	27.3
As a percent of total Federal outlays, excluding defense and net interest	31.9	37.8	36.5	35.7	45.8
As a percent of GNP	2.8	4.2	5.3	5.4	6.6

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[1] Estimated total spending for the elderly in 1965 was taken from a source that did not report spending separately by program.

[2] Prior to 1980, represents benefits for miners' widows only.

[3] Represents grants to states to aid the aged, blind, and disabled.

[4] Includes other veterans' compensation for aged beginning in 1980.

[5] Includes nutrition assistance to Puerto Rico.

[6] Adjusted to eliminate outlays resulting from changing the financing procedures for public housing.

[7] Includes, among other items, Administration on Aging programs, National Institute on Aging spending, housing loans for the elderly, and energy assistance.

NA—Not available.

Sources: Statement of Rudolph Penner, CBO, before the Subcommittee on Economic Resources, Competitiveness, and Security Economics, July 31, 1986. Figures for 1971–1985 from 1986 Statistical Abstract of the United States; figures for 1965 from R. Clark and J. Menefee, "Federal Expenditures for the Elderly: Past and Future," The Gerontologist, April 1981.

Notes: Reported spending includes only Federal outlays directed toward the elderly. Figures do not include Federal outlays benefiting younger people or spending by State and local governments.

Details may not add to totals because of rounding.

TAX TREATMENT OF THE ELDERLY

Present law includes a number of provisions that have the effect of reducing or eliminating the burden of Federal income tax on individuals who are elderly, disabled, or unable to work on account of injury or layoff. Some of these special provisions are targeted to lower income taxpayers; others reduce taxes for all taxpayers.

Prior law

Before 1987, the taxes of the elderly were reduced relative to those of other taxpayers through several mechanisms: the extra personal exemption, the credit for the elderly and disabled, the exclusion of Medicare benefits, and the nontaxation of Social Security benefits for individuals with adjusted gross incomes below certain thresholds.

Generally, prior law provided a personal exemption, worth $1,080 in 1986, to every taxpayer, the taxpayer's spouse, and each of the taxpayer's dependents. An additional personal exemption was provided for an individual who was age 65 or older, or who was blind. An individual who was both age 65 and blind was entitled to claim two additional personal exemptions. Thus, an individual age 65 or older was entitled to a personal exemption in 1986 of $2,160; an individual who was both elderly and blind, an exemption of $3,240.

Prior law also provided a nonrefundable income tax credit for individuals age 65 or older or those who retired on permanent or total disability. This mechanism remains unchanged in present law, and is described more fully below. In addition, prior law (as does present law) exempted Social Security benefits from taxation unless the individual's adjusted gross income exceeded $25,000 in the case of a single individual, and $32,000 in the case of married taxpayers filing jointly.

Present law

The Tax Reform Act of 1986 expanded the size of the personal exemption for every taxpayer to $1,900 in 1987, $1,950 in 1988, and $2,000 in 1989. After 1989, the personal exemption is indexed, so it is scheduled to increase with increases in the Consumer Price Index. (After 1987, the personal exemption is phased out for very high income taxpayers).

In 1989, the standard deduction for a single individual is $3,100 and for a couple filing jointly it is $5,200. Projections for 1990 yield a standard deduction of $3,200 for a single individual and $5,400 for a couple filing jointly.

As a result of the act, the elderly are not entitled to an extra personal exemption. Instead, present law provides for every person who is blind or elderly an addition to the individual's standard deduction. The additional amount is $600 for each married individual who is blind or elderly, and $750 for each unmarried blind or elderly individual. A person who is both blind and elderly is entitled to an addition to the individual's standard deduction of $1,200 if married filing jointly, and $1,500 if single. After 1987, these amounts are indexed to increases in the Consumer Price Index.

As under prior law, present law provides a nonrefundable income tax credit for individuals who are age 65 or over, or who have retired on permanent and total disability. For this purpose the definition of disability is identical to the standard used to determine eligibility for Social Security disability benefits. This credit is designed to provide tax benefits to individuals who receive only taxable retirement or disability income, or who receive a combination of taxable retirement or disability income plus Social Security benefits, that are generally comparable to the tax benefits provided to individuals who receive only Social Security benefits.

The credit equals 15 percent of an amount which equals an initial base amount ($5,000 for individual filers), as specified in the statute, that is then reduced by the amount of certain tax-free income received by the taxpayer and by one-half of the taxpayer's AGI exceeding a specified threshold. The credit is not indexed to the Consumer Price Index.

Like prior law, present law exempts from taxation the Social Security benefits of individuals whose Adjusted Gross Income is below certain thresholds ($25,000 for unmarried individuals, $32,000 for married couples filing jointly). These thresholds are not indexed to the Consumer Price Index.

As a result of the additional standard deduction, the credit, and the tax exemption for certain Social Security benefits, the tax threshold for elderly persons (that is, the income level at which a positive tax liability is incurred) is well above the poverty level. Indeed, as table 23 shows, the combination of these special tax provisions ensures that 54.6 percent of elderly individuals have no Federal income tax liability in 1990. For example, the income tax threshold of a single elderly individual with $5,000 of Social Security income is $6,100, and for an elderly married couple filing jointly is $12,233 (see table 22.)

In 1987 the average annual benefit of a retired worker was $5,769; the average annual benefit of a retired worker and spouse was $10,047.

TABLE 22.—TAX THRESHOLDS FOR ELDERLY INDIVIDUALS,[1] 1988–91

Year and filing status	Amount of social security income			
	Zero	$2,500	$5,000	$7,500
1988:				
Single	9,633	7,967	5,700	5,700
Joint	15,067	13,400	11,733	10,100
1989:				
Single	9,767	8,100	5,900	5,900
Joint	15,310	13,633	11,967	10,450
1990:[2]				
Single	9,900	8,233	6,100	6,100
Joint	15,567	13,900	12,233	10,850
1991:[2]				
Single	10,033	8,367	6,300	6,300
Joint	15,767	14,100	12,433	11,150

[1] Tax threshold is amount of adjusted gross income (excluding Social Security) at which tax liability begins. Table assumes taxpayers are 65 or older, are not blind, and receive no excludable disability benefit, annuity, or pension income other than Social Security income.

[2] Estimated.

TABLE 23.—DISTRIBUTION OF ELDERLY BY INCOME CLASS, CALENDAR YEAR 1990

Income [1] class (in thousands of current dollars)	Number of elderly individuals (thousands)	Percentage of elderly
Taxable returns:		
Below $5	0	0.0
$5 to $10	924	2.9
$10 to $15	2,184	6.9
$15 to $20	2,876	9.1
$20 to $30	3,191	10.1
$30 to $50	2,822	8.9
$50 to $75	1,103	3.5
$75 to $200	975	3.1
$200 and over	249	.8
Nontaxable returns	17,252	
Total	31,576	100.0

[1] The income concept used to place tax returns into income classes is adjusted gross income plus (1) tax exempt interest, (2) employer contributions for health plans and life insurance, (3) inside build-up on life insurance, (4) workers' compensation, (5) Social Security benefits, (6) contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

Source: Joint Committee on Taxation.

Supplemental premium for Medicare catastrophic coverage

Under the Medicare Catastrophic Coverage Act of 1988, individuals who (1) are Medicare part A eligible for more than 6 full months during the year, and (2) have adjusted income tax liability equal to or in excess of $150, are required to pay a new tax-related supplemental premium beginning in 1989. The supplemental premium is intended to provide approximately 63 percent of the catastrophic coverage and prescription drug benefit financing, with flat monthly premiums financing the remaining 37 percent. The supplemental premium is drafted in the Tax Code, collected with income tax payments, and after 1989, subject to income tax estimated payments.

For 1989, the supplemental premium rate is $22.50 per $150 of adjusted tax liability, as determined under tables (similar to the income tax tables) prescribed by the Secretary of the Treasury.[4] In the case of joint returns with only one Medicare eligible individual, half of total tax liability is used for purposes of determining the supplemental premium. The maximum supplemental premium is $800 per Medicare eligible individual (special rules apply to married individuals filing separate returns who did not live apart at all times during the year).

Adjusted income tax liability is defined as the taxpayer's Federal income tax liability reduced by (1) the government retiree exclusion amount (for certain individuals receiving Federal, State, or local pensions), and (2) income tax credits (other than the credit for tax withheld on wages, tax withheld on nonresident aliens and foreign corporations, and the tax paid on certain uses of gasoline and special fuels).

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[4] Treasury publication 934, "Supplemental Medicare Premium," contains the 1989 premium table.

Table 24, below, shows the 1989 supplemental Medicare premium for individuals in different income classes. For example, in the case of Medicare eligible individuals filing joint returns with gross income between $25,000 and $30,000, the average Federal income tax liability is estimated to be $930, and the supplemental premium corresponding to this tax liability is $69.50 per enrollee (i.e., the premium would be $139 if both husband and wife are Medicare eligible). In the case of a nonjoint return in this same gross income class, the average Federal income tax liability is estimated to be $1,410, and the corresponding supplemental premium is $214.

In 1989, it is estimated that approximately 60 percent of Medicare eligible individuals will pay no Medicare supplemental premium. Less than 6 percent of Medicare eligible individuals are estimated to pay the maximum supplemental premium of $800 in 1989.

TABLE 24.—SUPPLEMENTAL MEDICARE CATASTROPHIC PREMIUMS BY INCOME

[Calendar year 1989]

Gross income class [1]	Average gross income per return [1]	Average tax liability per return [2]	Supplemental premium per enrollee [3]
Joint returns			
$0 to $5,000	$2,597	0	0
$5,000 to $10,000	7,701	−$14	0
$10,000 to $15,000	12,556	−27	0
$15,000 to $20,000	17,514	13	0
$20,000 to $25,000	22,516	396	$27.00
$25,000 to $30,000	27,545	930	69.50
$30,000 to $35,000	32,378	1,559	118.00
$35,000 to $40,000	37,599	2,281	170.50
$40,000 to $45,000	42,374	3,057	230.50
$45,000 to $50,000	47,516	4,147	309.50
$50,000 to $55,000	52,052	4,991	373.00
$55,000 to $60,000	57,527	6,683	500.50
$60,000 to $65,000	62,609	8,204	617.00
$65,000 to $70,000	67,491	9,848	737.00
$70,000 to $75,000	72,097	10,166	763.00
$75,000 to $80,000	77,757	10,239	767.00
$80,000 to $85,000	82,424	12,258	800.00
$85,000 to $100,000	90,057	14,942	800.00
$100,000 to $200,000	136,677	25,315	800.00
$200,000 and up	643,630	139,278	800.00
Nonjoint returns			
$0 to $5,000	3,071	0	0
$5,000 to $10,000	7,056	−1	0
$10,000 to $15,000	12,376	105	0

TABLE 24.—SUPPLEMENTAL MEDICARE CATASTROPHIC PREMIUMS BY INCOME—Continued

[Calendar year 1989]

Gross income class [1]	Average gross income per return [1]	Average tax liability per return [2]	Supplemental premium per enrollee [3]
$15,000 to $20,000	17,196	576	86.00
$20,000 to $25,000	22,219	1,410	214.00
$25,000 to $30,000	27,274	2,035	304.00
$30,000 to $35,000	32,333	2,902	439.00
$35,000 to $40,000	37,254	4,773	716.00
$40,000 to $45,000	42,840	6,396	800.00
$45,000 to $50,000	47,076	7,637	800.00
$50,000 to $75,000	58,089	9,486	800.00
$75,000 to $100,000	87,280	17,041	800.00
$100,000 to $200,000	138,035	30,268	800.00
$200,000 and up	666,848	137,122	800.00

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[1] Solely for purposes of distributional analysis, gross income is defined as adjusted gross income (AGI) plus untaxed income from: (1) untaxed Social Security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computation of AGI. The supplemental premium is determined from tax liability which is based on taxable income rather than gross income.

[2] Average tax liabiity is computed from a relatively small sample of returns in the upper-income brackets, and may be somewhat less precisely estimated.

[3] Computed at average tax liability per return in income class.

APPENDIX I: POVERTY, INCOME AND TAX BURDEN DISTRIBUTIONS, WEALTH, AND HOMELESS STATISTICS[1]

This appendix presents statistics which describe the poverty, income and wealth status of individuals and/or families. It covers the following topics:

—measuring poverty, trends in the overall poverty rate, poverty rates for individuals in selected subgroups, geographic differences in poverty, the working poor, poverty rates by family type, international poverty comparisons for families;

—antipoverty effectiveness of various cash, near-cash, and noncash income sources for all individuals in: families or living alone, families with children, female-headed families with children, married-couple families with children, and families with all members age 65 and over;

—explanations for increases in poverty between 1979 and 1987;

—trends in family income and income inequality;

—the distribution of tax burdens by income and different family types;

—total household net worth, home equity, net worth from sources other than home equity; and

—statistics on the number of homeless and their characteristics.

POVERTY STATISTICS

MEASURING POVERTY

When the Federal Government began measuring poverty in the early 1960's, the continued existence of poor people in a time of the "Affluent Society" seemed anomalous. Official concern soon translated into efforts to measure the size of the poverty population, and the search began for programmatic ways to alleviate poverty. The first rough estimates of the incidence of poverty were based on survey data indicating that families generally spent about one-third of their income for food. A poverty level income was then calculated by using as a yardstick the amount of money necessary to purchase the lowest cost "nutritionally adequate" diet calculated by the Department of Agriculture (roughly equivalent to the current Thrifty Food Plan). This price tag was multiplied by 3 to produce a poverty threshold. This procedure assumed, then, that if a family did not have enough income to buy the lowest cost nutritionally adequate diet, and twice that amount to buy other goods and services, it was "poor." Adjustments were made for the size of the family, the sex of the family head, and for whether the family lived on the farm or not. Farm families were assumed to need less cash income because their needs could be met partially by farm products, particularly food. The adjustments for sex of the family head and for farm-nonfarm residence were abolished in 1981. Policy officials made one change to the basic approach for calculating the poverty threshold in 1969. The current poverty threshold is established each year simply by increasing the previous year's threshold by the change in the Consumer Price Index (CPI), rather than multiplying the cost of the Thrifty Food Plan by 3. The poverty thresholds for selected years are shown in table 1.

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[1] See Appendix G and Appendix H for additional poverty and income data related to individuals in families with children and the elderly.

Note that the tables in this subsection provide poverty data calculated using the official census definition of poverty. The census definition of poverty has remained fairly standard over time and is useful for measuring progress against poverty. Under this definition, poverty is determined by comparing pretax cash income with the poverty threshold.

It should be noted that the Census Bureau revised its method of estimating the poverty threshold four times—in 1966, 1974, 1979, and 1981. These revisions changed the estimate of the poverty rate. The first two revisions slightly reduced the estimated number of poor, while the more recent revisions slightly increased the number. In 1984, the Census Bureau also revised its method of imputing missing values for interest income, which lowered the estimated poverty rate slightly.

TABLE 1.—WEIGHTED AVERAGE POVERTY THRESHOLDS FOR NONFARM FAMILIES OF SPECIFIED SIZE, SELECTED YEARS, 1959–88

Calendar year	Unrelated individuals			Families of 2 or more persons							
				2 persons							
	All ages	Under age 65	Aged 65 or older	All ages	Head under age 65	Head aged 65 or older	3 persons	4 persons	5 persons	6 persons	7 persons or more
1959	$1,467	$1,503	$1,397	$1,894	$1,952	$1,761	$2,324	$2,973	$3,506	$3,944	$4,849
1960	1,490	1,526	1,418	1,924	1,982	1,788	2,359	3,022	3,560	4,002	4,921
1965	1,582	1,626	1,512	2,048	2,114	1,906	2,514	3,223	3,797	4,264	5,248
1970	1,954	2,010	1,861	2,525	2,604	2,348	3,099	3,968	4,680	5,260	6,468
1975	2,724	1,797	2,581	3,506	3,617	3,257	4,293	5,500	6,499	7,316	9,022
1976	2,884	2,959	2,730	3,711	3,826	3,445	4,540	5,815	6,876	7,760	9,588
1977	3,075	3,152	2,906	3,951	4,072	3,666	4,833	6,191	7,320	8,261	10,216
1978	3,311	3,392	3,127	4,249	4,383	3,944	5,201	6,662	7,880	8,891	11,002
1979	3,689	3,778	3,479	4,725	4,878	4,390	5,784	7,412	8,775	9,914	12,280
1980	4,190	4,290	3,949	5,363	5,537	4,983	6,565	8,414	9,966	11,269	[1]12,761
1981	4,620	4,729	4,359	5,917	6,111	5,498	7,250	9,287	11,007	12,449	[1]14,110
1982	4,901	5,019	4,626	6,281	6,487	5,836	7,693	9,862	11,684	13,207	[1]15,036
1983	5,061	5,180	4,775	6,483	6,697	6,023	7,938	10,178	12,049	13,630	[1]15,500
1984	5,278	5,400	4,979	6,762	6,983	6,282	8,277	10,609	12,566	14,207	[1]16,096
1985	5,469	5,593	5,156	6,998	7,231	6,503	8,573	10,989	13,007	14,696	[1]16,656
1986	5,572	5,702	5,255	7,138	7,372	6,630	8,737	11,203	13,259	14,986	[1]17,049
1987	5,778	5,909	5,447	7,397	7,641	6,872	9,056	11,611	13,737	15,509	[1]17,649
1988 [2] (est.)	6,015	6,152	5,671	7,701	7,955	7,154	9,428	12,088	14,301	16,146	[1]18,374

[1] Poverty threshold for 7 persons, not 7 persons or more.

[2] 1988 estimates are based on CBO's August 1988 inflation assumptions.

Source: Bureau of the Census, technical papers.

TRENDS IN THE OVERALL POVERTY RATE [2]

Table 2, which covers the time period 1959 through 1987, presents historical poverty data.

In the late 1950's, the overall poverty rate for individuals in the United States was 22 percent, representing 39.5 million poor persons. Between 1959 and 1969, the poverty rate declined dramatically and steadily to 12.1 percent. As a result of a sluggish economy, the rate increased slightly to 12.5 percent by 1971. In 1972 and 1973, however, it began to decrease again. The lowest rate over the entire 24-year period occurred in 1973, when the poverty rate was 11.1 percent. At that time roughly 23 million people were poor, 42 percent less than were poor in 1959.

The poverty rate increased by 1975 to 12.3 percent, and then oscillated around 11.5 percent through 1979. After 1978, however, the poverty rate rose steadily, reaching 15.2 percent in 1983. In 1987, the last year for which data are available, the poverty rate was 13.5 percent and 32.5 million people were poor.

POVERTY RATES FOR INDIVIDUALS IN SELECTED SUBGROUPS OF THE POPULATION

As table 2 also illustrates, there are substantial differences between the overall poverty rate and the poverty rates of individuals in certain demographic subgroups. Most notably, blacks, individuals in female-headed households, and Hispanics have poverty rates that greatly exceed the average. The poverty rates for blacks and individuals in female-headed households remained above 30 percent over the 1959 through 1987 period. The poverty rate for all Hispanics has remained near 30 percent during the 1980's. In 1987 the rate for Mexican-Americans was 28.3 percent, for Puerto Rican-Americans the rate was 40.3 percent, and for "other" Spanish origin Americans the rate was 21.7 percent. The poverty rate for the aged, which exceeded the overall poverty rate in 1959, fell below the overall poverty rate beginning in 1982. It was 12.2 percent in 1987. The poverty rate for whites was below the overall poverty rate throughout the entire 1959–1987 period. It was 10.5 percent in 1987.

The poverty rate for children also exceeds the average rate; it remained above 14 percent during the 1959 to 1987 period and was 20.4 percent in 1987. Table 3 provides poverty rates for children by race. Note that unlike the data for children in table 2, these data include unrelated children (children not living with any relatives).

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[2] All poverty trend information is based upon published Census Bureau data contained in "Money Income and Poverty Status of Families: 1978," P–60. No. 124; "Money Income and Poverty Status of Families: 1982," P–60, No. 140; "Money Income and Poverty Status of Families and Persons in the United States: 1983," P–60. No. 145; "Money Income and Poverty Status of Families and Persons in the United States: 1984," P–60. No. 149; "Money Income and Poverty Status of Families: 1985," P–60. No. 154; and "Money Income and Poverty Status of Families: 1986," P–60, No. 157, and "Money Income and Poverty Status in the United States: 1987," P–60, No. 161. All figures for children are for related children under 18 in families. These figures may differ with other parts of this report which provide a more refined breakdown of this age category. Data for blacks, the aged, and nonaged population were not available for the years 1961 to 1965.

CHART 1.

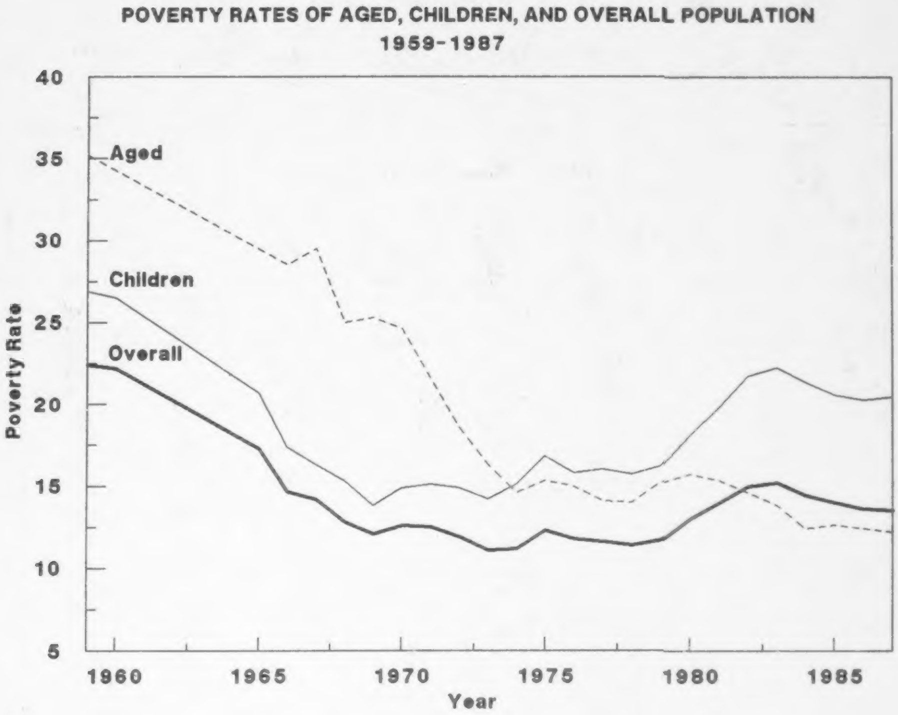
POVERTY RATES OF AGED, CHILDREN, AND OVERALL POPULATION
1959-1987
Aged
Children
Overall
Poverty Rate
40
35
30
25
20
15
10
5
1960
1965
1970
1975
1980
1985
Year

TABLE 2.—NUMBER OF PERSONS IN POVERTY AND POVERTY RATE FOR INDIVIDUALS IN SELECTED DEMOGRAPHIC GROUPS, 1959–1987

Year	Overall	Aged	Children [1]	Individuals in female-headed families	Blacks	Hispanic origin [2]	Whites
Number below poverty (thousands)							
1959	39,490	5,481	17,208	10,390	9,927	NA	28,484
1960	39,851	NA	17,288	10,663	NA	NA	28,309
1965	33,185	NA	14,388	11,058	NA	NA	22,496
1966	28,510	5,114	12,146	10,250	8,867	NA	19,290
1967	27,769	5,388	11,427	10,591	8,486	NA	18,983
1968	25,389	4,632	10,739	10,364	7,616	NA	17,395
1969	24,147	4,787	9,501	10,412	7,095	NA	16,659
1970	25,420	4,793	10,235	11,154	7,548	NA	17,484
1971	25,559	4,273	10,344	11,409	7,396	NA	17,780
1972	24,460	3,738	10,082	11,587	7,710	2,414	16,203
1973	22,973	3,354	9,453	11,357	7,388	2,366	15,142
1974	23,370	3,085	9,967	11,469	7,182	2,575	15,736
1975	25,877	3,317	10,882	12,268	7,545	2,991	17,770
1976	24,975	3,313	10,081	12,586	7,595	2,783	16,713
1977	24,720	3,177	10,028	12,624	7,726	2,700	16,416
1978	24,497	3,233	9,722	12,880	7,625	2,607	16,259
1979	26,072	3,682	10,198	13,503	8,050	2,921	17,214
1980	29,272	3,871	11,359	14,649	8,579	3,491	19,699
1981	31,822	3,853	12,324	15,738	9,173	3,713	21,553
1982	34,398	3,751	13,476	16,336	9,697	4,301	23,517
1983	35,303	3,625	13,768	16,713	9,882	4,633	23,984
1984	33,700	3,330	13,274	16,440	9,490	4,806	22,955
1985	33,064	3,456	12,814	16,365	8,926	5,236	22,860
1986	32,370	3,477	12,688	16,926	8,983	5,117	22,183
1987	32,546	3,491	12,830	16,912	9,683	5,470	21,409
Poverty rate (percent)							
1959	22.4	35.2	26.9	50.2	55.1	NA	18.1
1960	22.2	NA	26.5	49.5	NA	NA	17.8
1965	17.3	NA	20.7	46.0	NA	NA	13.3
1966	14.7	28.5	17.4	41.0	41.8	NA	11.3
1967	14.2	29.5	16.3	40.6	39.3	NA	11.0
1968	12.8	25.0	15.3	38.9	34.7	NA	10.0
1969	12.1	25.3	13.8	38.4	32.2	NA	9.5
1970	12.6	24.6	14.9	38.2	33.5	NA	9.9
1971	12.5	21.6	15.1	38.0	32.5	NA	9.9
1972	11.9	18.6	14.9	36.9	33.3	22.8	9.0
1973	11.1	16.3	14.2	34.9	31.4	21.9	8.4
1974	11.2	14.6	15.1	33.6	30.3	23.0	8.6
1975	12.3	15.3	16.8	34.6	31.3	26.9	9.7
1976	11.8	15.0	15.8	34.4	31.1	24.7	9.1
1977	11.6	14.1	16.0	32.8	31.3	22.4	8.9
1978	11.4	14.0	15.7	32.3	30.6	21.6	8.7

TABLE 2.—NUMBER OF PERSONS IN POVERTY AND POVERTY RATE FOR INDIVIDUALS IN SELECTED DEMOGRAPHIC GROUPS, 1959–1987—Continued

Year	Overall	Aged	Children [1]	Individuals in female-headed families	Blacks	Hispanic origin [2]	Whites
1979	11.7	15.2	16.2	32.0	31.0	21.8	9.0
1980	13.0	15.7	18.1	33.8	32.5	30.8	10.2
1981	14.0	15.3	19.8	35.2	34.2	26.5	11.1
1982	15.0	14.6	21.7	36.2	35.6	29.9	12.0
1983	15.2	13.8	22.2	35.6	35.7	28.0	12.1
1984	14.4	12.4	21.3	34.0	33.8	28.4	11.5
1985	14.0	12.6	20.5	33.5	31.3	29.0	11.4
1986	13.6	12.4	20.2	34.2	31.1	27.3	11.0
1987	13.5	12.2	20.4	33.6	33.1	28.2	10.5

[1] Related children under 18 in families and unrelated subfamilies. Does not include unrelated children.
[2] Hispanic origin may be of any race; it is an overlapping category.
NA—Not available.

Source: Bureau of the Census, Technical Paper 56, table 1; series P–60: No. 134, table 15; No. 140, table 15; No. 145, table 15; No. 149, table 15; No. 152, table 1; No. 154, table 16; No. 157, tables 15 and 16; and No. 161, table 18.

TABLE 3.—POVERTY RATES OF CHILDREN, BY RACE [1]

	Total	Black	White	Hispanic [2]
1975	17.1	41.7	12.7	NA
1976	16.0	40.6	11.6	30.2
1977	16.2	41.8	11.6	28.3
1978	15.9	41.5	11.3	27.6
1979	16.4	41.2	11.8	28.0
1980	18.3	42.3	13.9	33.2
1981	20.0	45.2	15.2	35.8
1982	21.9	47.6	17.0	39.4
1983	22.3	46.7	17.5	38.1
1984	21.5	46.5	16.7	39.2
1985	20.7	43.6	16.2	40.3
1986	20.5	43.1	16.1	37.7
1987	20.6	45.8	15.6	39.8

[1] Includes all persons under 18 below the poverty level, including unrelated children.
[2] Hispanic origin may be of any race; this category is not exclusive.

Source: U.S. Bureau of the Census, "Poverty in the United States," 1986 (Table 2); "Money Income and Poverty Status of Families and Persons in the United States," 1987 (Table 18).

GEOGRAPHIC DIFFERENCES IN POVERTY [3]

Poverty rates by State are provided in Appendix J. Table 4 provides 1987 poverty data by region. The rest of this subsection outlines rural/urban differences in poverty.[4]

TABLE 4.—POVERTY BY REGION, 1987

	Number below poverty (thousands)				Poverty rate (percent)			
	All races	White	Black	Hispanic	All races	White	Black	Hispanic
Northeast	5,476	3,860	1,391	1,232	11.0	8.9	28.8	36.6
Midwest	7,499	5,185	2,041	366	12.7	9.9	36.6	27.5
South	13,287	7,426	5,648	1,910	16.1	11.5	34.5	31.0
West	6,285	4,939	603	1,962	12.6	11.5	24.3	23.0

Source: Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the United States," report for 1987 (table 18).

As table 5 demonstrates, rural poverty is a very real phenomenon. On average across the United States, the poverty rate for rural areas exceeds the poverty rate for urban metropolitan areas. Rural poverty rates are almost as high as, and in 1986 even exceeded, poverty rates of the central city sections of metropolitan areas.

Between 1978 and 1987, the poverty rate in nonmetro areas increased more quickly than the poverty rate in the overall metro areas and the central city sections of the metro areas. Between 1986 and 1987, however, poverty rates actually declined in nonmetro areas and increased in metropolitan areas. It appears that the major reason that poverty rates declined in nonmetro areas is that the poverty rate of farm residents decreased significantly.

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[3] This section draws from "The Rural Poor: Policy Issues for the 1990's," by Kenneth L. Deavers, Robert A. Hoppe, and Peggy J. Ross, Economic Research Service, U.S. Department of Agriculture, undated.

[4] The terms "urban" and "metro" are used synonymously to describe those areas designated by the Bureau of the Census as metropolitan statistical areas (MSA). The Census Bureau defines a metropolitan statistical area as "a geographic area consisting of a large population nucleus, together with adjacent communities which have a high degree of economic and social integration with that nucleus. The definitions specify a boundary around each large city so as to include most or all of its suburbs. Entire counties form the MSA building blocks, except in New England where cities and towns are used." (Bureau of the Census, U.S. Department of Commerce, Poverty in the United States: 1985, Series P-60, No. 158, October 1987, p. 159)

The terms "rural" and "nonmetro" are likewise used to describe those areas that the Census Bureau designates as being outside a metropolitan statistical area.

The term "central city" is used as defined by the Census Bureau to mean the largest city or cities in a metropolitan statistical area.

Differences in rural and urban poverty are also apparent in the work status of the poor. The data at the top of table 7 show that close to 50 percent of the household heads in poor families worked during 1987. The data also highlight that household heads in nonmetro areas tend to work more than household heads in metro areas.

TABLE 5.—POVERTY RATES IN NONMETRO AND METRO AREAS, 1978–87

[Percent of persons]

	Nonmetro	Metro	
		Total	Central cities only
1978	13.5	10.4	15.4
1979	13.8	10.7	15.7
1980	15.4	11.9	17.2
1981	17.0	12.6	18.0
1982	17.8	13.7	19.9
1983	18.3	13.8	19.8
1984	NA	NA	NA
1985	18.3	12.7	19.0
1986	18.1	12.3	18.0
1987	16.9	12.5	18.6
Percent increase, 1978–87:	25.2	20.2	20.8

NA—Not available.

The top part of table 6 shows that poverty rates were higher in 1987 in rural areas than metropolitan areas for every race classification. Further, when broken down by race, poverty rates in rural areas exceeded poverty rates in central cities for both blacks and Hispanics. For example, Hispanics had a poverty rate of 35.6 percent in nonmetro areas and 31.7 percent in central cities. For blacks, the rural/central city differences were even greater: the nonmetro poverty rate was 44.1 percent and the central city rate was 33.3 percent.

Differences between rural and urban area poverty are also apparent in the family composition of the poor. The rural poor, more than the urban poor, tend to be comprised of families with two parents. As the bottom section of table 6 shows, in 1986 more than one-half of the poor in nonmetro areas lived in two-parent families, whereas roughly 35 percent of the poor in metro areas lived in such households.

TABLE 6.—PERCENT OF PERSONS IN POVERTY IN 1987 BY RACE, AND COMPOSITION OF THE POVERTY POPULATION IN 1986 BY FAMILY TYPE

	Nonmetro	Metro	
		Total	Central cities only
1987:			
All races	16.9	12.5	18.6
White	13.7	9.6	13.8
Black	44.1	30.7	33.3
Hispanic	35.6	27.6	31.7
1986:			
Poor persons	100.0	100.0	NA
In female-headed families	28.8	40.4	NA
In all other families [1]	50.8	34.8	NA
Unrelated individuals [2]	20.4	24.8	NA

[1] The vast majority of this group is comprised of married couples (with or without children).

[2] Unrelated individuals living alone or with nonrelatives.

Source: 1987 data are from the Bureau of the Census, Money Income and Poverty Status of Families and Persons in the United States: 1987, Table 18. 1985 data are from the U.S. Bureau of the Census and appear in "The Rural Poor: Policy Issues for the 1990's," by Kenneth L. Deavers, Robert A. Hoppe, and Peggy J. Ross.

Focusing exclusively on the work history of household heads may understate the work effort of the poor, because family members other than the household head may work. The number of workers per poor family is a much better gauge of the work effort of the poor. As table 7 also shows, in 1986 about two-thirds of nonmetro poor families had at least one worker, and more than one-fourth had two or more workers. By contrast, in metro areas, slightly more than one-half of the families that were poor had one or more members working. This difference in work is undoubtedly related to the fact that, as table 5 pointed out, the poor in nonmetro areas are more likely to live in married-couple families. Married-couple families are more likely to contain two potential workers, while female-headed families are more likely to contain only one potential worker.

TABLE 7.—WORK STATUS OF FAMILIES IN POVERTY, BY METRO AND NONMETRO RESIDENCE

	Metro	Nonmetro
1987:		
Percent of poor household heads who work	44.0	54.7
Full-year	17.1	23.4
Full-time	12.8	18.8
Part-year	26.8	31.3
Full-time	17.0	19.5
Percent of poor household heads who do not work	56.0	45.3

TABLE 7.—WORK STATUS OF FAMILIES IN POVERTY, BY METRO AND NONMETRO RESIDENCE—Continued

	Metro	Nonmetro
1986:		
Percent of poor families with:		
No workers	43.7	32.5
One worker	39.4	38.6
Two or more workers	16.8	28.9
Total	100.0	100.0

Source: U.S. Bureau of the Census.

THE WORKING POOR

People can work and still be poor for many reasons. Workers may not work the entire year due to the loss of a job, inability to find full-time, full-year work, illness or disability, or other family responsibilities. Even full-time workers may not earn enough to keep a family, particularly a large family, out of poverty.

Tables 8 and 9 provide data on the work status of families with children. Table 8 answers the question: "Of all poor (or nonpoor) families with children, what percent work?" Table 9 answers the question: "Of all families with children and who work, what percent are poor?"

Table 8 shows that in 1987, 60 percent of all poor families with children were families in which someone worked during the year. Twenty-five percent of all poor families with children were families with one or more full-time worker equivalents (FTWEs).

Although employment decreased slightly for families with children between 1979 and 1987, calculations from this table show that among those families with work, the number of FTWEs increased. For example, 51 percent (47.7÷93.6 in column 1 of table 8) of all working families with children had at least one and a half FTWEs in 1979, compared with 55 percent (a similar calculation) in 1987. This difference is based mostly on the increased FTWEs of married-couple families. The percent of all married-couple families with children with more than one and a half full-time equivalent workers increased from 56 percent to 64 percent.

The work status of female-headed families changed little over this period, presumably because these families are less likely to be able to increase work through a second earner, and are balancing the roles of family caretaker and provider. Note that most female-headed families with children who were nonpoor in either year were working a significant number of hours: 74 percent of these families had one or more FTWEs in 1979, and 80 percent of these families had one or more FTWEs in 1987.

Table 9 describes the poverty status of families with children with various levels of work (also defined in terms of FTWEs). This table shows that the poverty rate of married-couple families with children and female-headed families with children who have significant work (0.75 FTWE or more) increased between 1979 and 1987.

For example, among married-couple families with children with 0.75 or more FTWEs, poverty increased from 4.1 to 4.8 percent. Among female-headed families with children with significant work, poverty increased from 11.1 to 14.8 percent. When these increased poverty rates are applied to the population of families with children, growth in the number of working poor families is not insignificant. Note that female-headed families are much more likely to be poor than married-couple families, despite work.

Table 10 presents estimates of the number of working poor families, by family type. In 1987, 3.5 million families with children had some work and yet remained poor. About 1.8 million families had significant work (0.75 FTWE or more) and yet remained poor. The majority of these poor families with significant work were headed by two parents—63 percent.

TABLE 8.—THE WORK STATUS OF FAMILIES WITH CHILDREN, BY FAMILY TYPE AND POVERTY STATUS, 1979 AND 1987

[In percent]

	All families with children			Married couple families with children			Female-headed families with children		
	Total	Poor	Non-poor	Total	Poor	Non-poor	Total	Poor	Non-poor
1979:									
No work	6.4	36.7	2.0	2.3	16.2	1.4	22.9	50.0	5.1
Some work	93.6	63.3	98.0	97.7	83.8	98.0	77.1	50.0	94.9
0.25 FTWE or more	91.3	51.3	97.1	96.7	76.7	98.0	69.2	34.8	91.7
0.50 FTWE or more	89.2	42.3	96.0	95.6	69.8	97.3	63.1	24.7	88.2
0.75 FTWE or more	86.2	33.7	93.9	93.8	62.1	95.9	55.7	15.6	81.9
1.00 FTWE or more	82.7	26.4	90.9	91.2	52.4	93.8	48.4	10.0	73.6
1.50 FTWE or more	47.7	8.6	53.3	56.5	19.8	58.9	13.7	1.6	21.6
1987:									
No work	8.1	40.0	1.6	2.6	18.9	1.2	26.4	52.5	3.3
Some work	91.9	60.0	98.4	97.4	81.1	98.8	73.6	47.5	96.7
0.25 FTWE or more	89.3	48.0	97.6	96.3	73.3	98.0	66.1	33.5	94.9
0.50 FTWE or more	87.1	39.7	96.7	95.1	65.4	97.4	60.8	25.2	92.2
0.75 FTWE or more	84.3	31.4	94.9	93.3	56.9	96.3	54.4	17.2	87.3
1.00 FTWE or more	81.1	24.7	92.6	91.3	48.5	94.9	48.1	11.4	80.5
1.50 FTWE or more	50.9	7.2	59.8	63.7	17.1	67.6	12.6	1.5	22.4

Note: Full-time worker equivalent is expressed in terms of the total number of hours worked during the year by family members. A full-time worker equivalent (FTWE) equal to 1 is defined as from 1,750 hours worked during the year (the equivalent of 35 hours of work per week for 50 weeks during the year) up to 2,080 hours worked during the year (the equivalent of 40 hours of work per week, for 52 weeks during the year). Two full-time worker equivalents is defined as from 3,500 up to 4,160 hours of work during the year. Categories for families with less than 1 FTWE are defined on the basis of the lower bound of 1,750 hours for a full-time worker equivalent. Categories for families with between 1 and 2 FTWEs are defined on the basis of the upper bound for 1 FTWE (2,080 hours) and the lower bound of 2 FTWEs (3,500 hours of work).

Source: Calculations by Congressional Research Service (CRS) using data from the March 1980 and March 1988 Current Population Surveys (CPS).

TABLE 9.—POVERTY STATUS OF FAMILIES WITH CHILDREN, BY WORK STATUS AND FAMILY TYPE, 1979 AND 1987

[In percent]

	All families			Married couples			Female-headed families		
	Total	Poor	Nonpoor	Total	Poor	Nonpoor	Total	Poor	Nonpoor
1979:									
Total	100.0	12.7	87.3	100.0	6.1	93.9	100.0	39.6	60.4
No Work	100.0	73.1	26.9	100.0	42.7	57.3	100.0	86.4	13.6
Some work	100.0	8.6	91.4	100.0	5.3	94.7	100.0	25.7	74.3
Up to 0.75 FTWE	100.0	51.1	48.9	100.0	34.6	65.4	100.0	63.5	36.5
0.75 FTWE or more	100.0	5.0	95.0	100.0	4.1	95.9	100.0	11.1	88.9
1987:									
Total	100.0	16.8	83.2	100.0	7.8	92.2	100.0	46.9	53.1
No Work	100.0	83.4	16.6	100.0	56.5	43.5	100.0	93.3	6.7
Some work	100.0	11.0	89.0	100.0	6.5	93.5	100.0	30.3	69.7
Up to 0.75 FTWE	100.0	62.6	37.4	100.0	47.0	53.0	100.0	74.1	25.9
0.75 FTWE or more	100.0	6.3	93.7	100.0	4.8	95.2	100.0	14.8	85.2

Note: Full-time worker equivalent is expressed in terms of the total number of hours worked during the year by family members. A full-time worker equivalent (FTWE) equal to 1 is defined as from 1,750 hours worked during the year (the equivalent of 35 hours of work per week for 50 weeks during the year) up to 2,080 hours worked during the year (the equivalent of 40 hours of work per week, for 52 weeks during the year). Two full-time worker equivalents is defined as from 3,500 up to 4,160 hours of work during the year. Categories for families with less than 1 FTWE are defined on the basis of the lower bound of 1,750 hours for a full-time worker equivalent. Categories for families with between 1 and 2 FTWEs are defined on the basis of the upper bound for 1 FTWE (2,080 hours) and the lower bound of of 2 FTWEs (3,500 hours of work).

Source: Calculations by Congressional Research Service (CRS) using data from the March 1980 and March 1988 Current Population Surveys (CPS).

TABLE 10.—NUMBER OF FAMILIES (WITH CHILDREN) WHO WORK AND YET REMAIN POOR, 1979 AND 1987, BY FAMILY TYPE

[In thousands of families]

	All families		Married-couple families		Female-headed families	
	1979	1987	1979	1987	1979	1987
Total poor	4,082	5,780	1,545	2,000	2,425	3,543
No work	1,499	2,314	251	378	1,212	1,861
Some work	2,583	3,466	1,295	1,622	1,213	1,683
Up to 0.75 FTWE	1,207	1,649	335	484	833	1,074
0.75 FTWE or more	1,376	1,816	960	1,138	379	609

Note: Full-time worker equivalent is expressed in terms of the total number of hours worked during the year by family members. A full-time worker equivalent (FTWE) equal to 1 is defined as from 1,750 hours worked during the year (the equivalent of 35 hours of work per week for 50 weeks during the year) up to 2,080 hours worked during the year (the equivalent of 40 hours of work per week, for 52 weeks during the year). Two full-time worker equivalents is defined as from 3,500 up to 4,160 hours of work during the year. Categories for families with less than 1 FTWE are defined on the basis of the lower bound of 1,750 hours for a full-time worker equivalent. Categories for families with between 1 and 2 FTWEs are defined on the basis of the upper bound for 1 FTWE (2,080 hours) and the lower bound of 2 FTWEs (3,500 hours of work).

Source: Calculations by Congressional Research Service (CRS) using data from the March 1980 and March 1988 Current Population Surveys (CPS).

COMPOSITION OF THE POVERTY POPULATION

The composition of the poverty population changes over time as both the relative size of the various subgroups of the population change and as the poverty rates of different subgroups change. Table 11 presents data on the composition of the poverty population, broken down by selected subgroups of the population for several years between 1959 and 1987.

TABLE 11.—COMPOSITION OF POVERTY POPULATION FOR SELECTED DEMOGRAPHIC GROUPS[1]

[Percent of poverty population]

	1959	1966	1975	1982	1983	1984	1985	1986	1987
Aged	13.9	17.9	12.8	10.9	10.5	9.9	10.5	10.7	10.7
Children	43.6	42.6	42.1	39.2	39.0	39.4	38.8	39.2	39.4
Nonaged adults	42.5	39.5	45.1	49.9	50.5	50.7	50.7	50.1	49.9
Individuals in female-headed families[2]	26.3	36.0	47.4	47.5	47.4	48.8	49.5	52.3	52.0
Individuals in all other families[2]	73.7	64.0	52.6	52.5	52.6	51.2	50.5	47.7	48.0
Blacks	25.1	31.1	29.2	28.2	27.8	28.2	27.0	27.8	29.8
Whites	72.1	67.7	68.7	68.4	68.1	68.1	69.1	68.5	65.8
Other races	2.8	1.2	2.1	3.4	4.1	3.7	3.9	3.7	4.4
Hispanic origin[3]	NA	NA	11.6	12.5	13.1	14.3	15.8	15.8	16.8

[1] Data are for March of the following year.

[2] Includes unrelated or single individuals.

[3] Hispanic origin may be of any race; therefore numbers add to more than 100 percent.

Source: Estimates based on data from "Money Income and Poverty Status of Families and Persons in the United States 1985," p. 60 No. 154 and No. 157.

POVERTY RATES FOR FAMILIES[5]

Table 12 presents poverty data for families and unrelated individuals (individuals living alone). Female-headed families with children and unrelated individuals are more likely to be poor than other families with children or families with aged members. In 1987, 47 percent of female-headed families with children were poor, compared with 8 percent of male-present families. Although only about 7 percent of all families with an aged member were poor, 24 percent of all aged unrelated individuals were poor. About 19 percent of nonaged unrelated individuals were poor.

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[5] Income figures reported in this subsection were from the March 1987 Current Population Survey (CPS) computer data tape. There is a tendency in surveys, such as the CPS, for respondents to underreport their incomes by both source and amount. Reporting of income from earnings is usually more accurate than reporting of income from other sources. In general, CPS estimates of amounts or numbers of recipients of various cash and noncash transfer programs tend to be lower than administrative program totals. As a result, the data are a better reflection of general trends and patterns than of absolute numbers with income from a particular source, or the amount received.

Unrelated subfamilies are included as families in this analysis. The Census Bureau excludes such families from its poverty counts.

TABLE 12.—POVERTY RATES BY FAMILY TYPE, 1982–87, AND PERCENTAGE OF FAMILIES AND UNRELATED INDIVIDUALS BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD, 1987 [1,2]

	Poverty rate, 1982–87						Ratio of total income to poverty threshold, 1987							1987 Total (in thousands)
	1982	1983	1984	1985	1986	1987	Under 0.50	0.50 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	
Total:														
Families	12.5	12.6	11.9	11.6	11.2	11.2	4.5	6.7	3.7	4.0	8.9	18.4	53.7	65,670
Unrelated individuals	23.1	23.4	21.8	21.4	21.6	20.8	7.5	13.3	8.2	6.6	10.4	17.6	36.4	38,860
No members age 65 or over:														
Families	13.3	13.5	13.0	12.7	12.3	12.1	5.2	6.9	3.5	3.7	8.2	17.5	54.9	53,304
Unrelated individuals	21.4	22.1	20.9	19.8	20.2	19.1	8.9	10.2	5.5	4.9	9.1	18.0	43.4	23,376
Any member age 65 or over:														
Families	9.0	8.8	7.2	7.1	6.8	7.1	1.5	5.6	4.5	5.3	12.2	22.3	48.6	12,366
Unrelated individuals	27.1	26.5	24.2	25.6	25.2	24.0	2.9	21.1	15.0	11.0	13.8	16.7	19.4	9,330
Families with children:														
Female headed family, no husband present	48.2	47.8	46.5	46.0	46.9	46.9	23.2	23.7	7.2	6.1	10.5	14.9	14.5	7,556
Male present families	10.2	10.5	9.8	9.3	8.5	8.3	2.6	5.7	3.7	4.3	10.0	21.7	52.0	26,846

[1] Based on census ("Orshansky") poverty levels.
[2] Unrelated subfamilies are treated as separate families; related subfamilies are not treated as separate families but as members of the family with whom they reside.

Source: March Current Population Survey for selected years. Table prepared by CRS.

INTERNATIONAL COMPARISONS OF THE POVERTY OF FAMILIES [6]

Explanation of and limitations of the methodology.—The income data used in this analysis to calculate poverty comes from the Luxembourg Income Study (LIS). The LIS data base includes nine countries, but only eight are represented here. Israel is excluded from the comparisons because its data are too idiosyncratic to yield much insight into comparative trends. Each survey covers at least 92 percent of the noninstitutionalized population, and was conducted between 1979 and 1982.

Family disposable personal income (post-tax, post-transfer income) is the measure of well-being used here. It includes all forms of cash income (earnings, property income, all cash transfers) net of direct taxes (that is, employer and employee payroll taxes and income taxes). The income definition also includes what may be termed "near-cash" income: benefits from public income transfer programs which are nominally disguised as in-kind benefits, but which have a cash equivalent value equal to their government cost. These include food stamps in the United States and housing allowances in the United Kingdom and Sweden, but not health benefits.

Disposable income is also adjusted for differences in family size and composition. Adjusted income is calculated by dividing disposable income by the equivalence scale appropriate to each family size and age composition. The equivalence scale is normalized to a family of three persons. "Family" and "household" are used interchangeably.

The definition of poverty is the official U.S. Government poverty line definition, which is converted into other currencies using the OECD purchasing power parities. Poverty status is determined by comparing adjusted income (disposable income normalized to the income of a three-person family) to the U.S. government three-person poverty line.

Results.—As table 13 shows, based on the income definition used in this analysis, the United States has a higher proportion of children living in poverty than any other country in the study. Among children the U.S. poverty rate remains highest when the standard drops to 75 percent of poverty. When the standard is raised to 125 percent of poverty, the U.S. poverty rate is second highest. Poverty among the elderly in the United States, compared with poverty among the elderly in other countries, depends more on where the poverty standard is set. At 75 percent of the poverty line, the United States has the second highest rate, but at 125 percent, the United States moves closer to the middle of the group of countries shown.

Table 14 presents international comparisons of children in poverty by family type. In all eight countries, children in one-parent families are considerably more likely to be in poverty than children in two-parent families. Except for the United States, table 14 shows that there appears to be a slight negative correlation between the proportion of children in single-parent families and poverty rates. The United States has both a high percentage of children in single-parent families and high single-parent poverty. The combination has an important influence on overall child poverty rates. If every country had the same percentage of children in single-parent families as the United States in 1980 but its own child poverty rate, the poverty rate among all children would increase everywhere but in Norway and Sweden. In all other countries except Australia, however, the increase in child poverty would still leave those countries far below U.S. rates. What appears to distinguish the United States and Australia is that a greater proportion of single-parent families have very low incomes.

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[6] This section is from "Patterns of Income and Poverty: The Economic Status of Children and the Elderly in Eight Countries," by Timothy Smeeding, Barbara Boyle Torrey, and Martin Rein in *The Vulnerable,* Urban Institute Press, 1988.

Table 15 presents figures on the role of public transfers in removing families in the various countries from poverty. It shows the proportion of families in poverty before taxes and transfers, after taxes, and after taxes and transfers, providing additional insight into the differences among countries. Comparing the first two columns provides an indication of how much the tax systems in the various countries take from poor families with children and elderly families. The proportion of families left poor after taxes and transfers is shown in the third column.

TABLE 13.—SENSITIVITY OF POVERTY RATES TO THE LEVEL OF THE ABSOLUTE POVERTY LINE, CHILDREN AND ELDERLY, 1979–81 PERIOD

Country	Percentage of persons falling below—			Spread (percentage points) [1]
	75 percent of poverty line	Absolute poverty	125 percent of poverty line	
Poverty among children:				
Australia	7.3	16.9	26.2	18.9
Canada	4.4	9.6	15.2	10.8
Germany, F.R.	2.5	8.2	21.5	19.0
Norway	2.7	7.6	17.2	14.5
Sweden	2.2	5.1	9.7	7.5
Switzerland	2.0	5.1	9.3	7.3
United Kingdom	3.8	10.7	22.7	18.9
United States	9.8	17.1	24.2	14.4
Poverty among the elderly:				
Australia	2.7	19.2	38.5	35.8
Canada	1.7	4.8	16.6	14.9
Germany, F.R.	5.9	15.4	29.8	23.9
Norway	4.3	18.7	40.1	35.8
Sweden	.1	2.1	11.2	11.1
Switzerland	2.4	6.0	13.8	11.4
United Kingdom	6.9	37.0	61.1	54.2
United States	6.8	16.1	26.6	19.8

[1] Difference between 125 percent and 75 percent of the poverty line.

Source: Computations from the Luxembourg Income Study Data File (1987).

TABLE 14.—POVERTY AMONG CHILDREN BY FAMILY TYPE, SELECTED COUNTRIES, 1979–81 PERIOD

Country	Percentage of low-income children in each family type			
	One-parent families [1]	Two-parent families [2]	Other families [3]	All types of families
Poverty rates of children by family type:				
Australia	65.0	12.4	10.6	16.9
Canada	38.7	6.8	5.5	9.6
Germany, F.R.	35.1	4.9	12.1	8.2
Norway	21.6	4.4	12.7	7.6
Sweden	8.6	4.5	.5	5.1
Switzerland	12.9	4.1	3.8	5.1
United Kingdom	38.6	9.5	2.5	10.7
United States	51.0	9.4	16.2	17.1
Percentage of children by family type:				
Australia	9.1	75.3	15.6	100.0
Canada	9.6	71.1	19.3	100.0
Germany, F.R.	5.5	72.2	22.3	100.0
Norway	15.7	78.1	6.2	100.0
Sweden	14.8	84.8	.4	100.0
Switzerland	11.6	87.3	1.1	100.0
United Kingdom	8.0	76.7	15.3	100.0
United States	14.7	61.9	23.4	100.0

[1] Children in one-parent families are living with one natural parent and no other adults in the family.

[2] Children in two-parent families live in units with two parents and no other adults.

[3] Children in other families may live with adults other than parents: for example, living with grandparents, in extended family situations, and in foster homes.

Source: Computations from the Luxembourg Income Study Data File (1987).

TABLE 15.—ROLE OF PUBLIC TRANSFERS IN REMOVING FAMILIES FROM POVERTY, CHILDREN AND THE ELDERLY, 1979–81 PERIOD

Family type and country	Poverty rate			Overall poverty reduction rate
	Pretax/pre-transfer	Pre-transfer/posttax	Posttax/post-transfer	
Families with children:				
Australia	17.6	19.9	15.0	14.8
Canada	13.6	14.4	8.6	36.8
Germany, F.R.	7.9	15.0	6.9	12.7
Norway	12.1	15.9	6.4	47.1
Sweden	10.4	22.5	4.4	57.7
Switzerland	4.4	6.2	4.1	6.8
United Kingdom	14.1	20.6	8.5	39.7
United States	16.6	18.0	13.8	16.9

TABLE 15.—ROLE OF PUBLIC TRANSFERS IN REMOVING FAMILIES FROM POVERTY, CHILDREN AND THE ELDERLY, 1979–81 PERIOD—Continued

Family type and country	Poverty rate			Overall poverty reduction rate
	Pretax/ pre-transfer	Pre-transfer/ posttax	Posttax/ post-transfer	
Single-parent families:				
Australia	67.6	71.2	61.4	9.2
Canada	48.0	49.1	35.3	26.5
Germany, F.R.	37.2	47.1	31.9	14.2
Norway	35.2	40.8	17.6	50.0
Sweden	33.1	49.4	7.5	77.3
Switzerland	14.5	17.9	11.9	17.9
United Kingdom	53.1	59.6	36.8	30.7
United States	49.3	51.4	42.9	13.0
Elderly families:				
Australia	72.2	74.1	23.8	67.0
Canada	56.8	57.6	5.9	89.6
Germany, F.R.	80.6	82.2	17.1	78.8
Norway	76.6	81.3	19.6	74.4
Sweden	87.9	98.1	2.6	97.0
Switzerland	59.8	65.6	7.3	87.8
United Kingdom	77.6	80.8	40.9	47.3
United States	59.0	59.8	18.7	68.3

Source: Computations from the Luxembourg Income Study Data File (1987).

ANTIPOVERTY EFFECTIVENESS OF VARIOUS CASH, NEAR-CASH AND NONCASH INCOME SOURCES

Methodology

As shown earlier in Appendix G and Appendix H, families and individuals differ markedly by the combinations of income upon which they rely for support. This section explores the effectiveness of various income sources in addressing poverty.

One way of assessing the antipoverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received. The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of Social Security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive Social Security with the number of poor remaining after Social Security income is counted.

A second way of assessing the effectiveness of various income sources upon poverty is to estimate the degree to which those sources reduce the gap between a poor family's income and the poverty threshold. This concept is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Tables 16 through 20 examine the antipoverty effectiveness of cash and noncash transfers from 1979 to 1987. These tables were prepared by the Congressional Budget Office using Census Bureau data and present information for all individuals in: families or living alone (table 16); families with related children less than 18 (table 17); families with an unmarried head and related children less than 18 (table 18); married-couple families with related children less than 18 (table 19); and families with all members ages 65 or older (table 20).

All statistics are based on Current Population Survey (CPS) data for the relevant year, unadjusted for possible underreporting. Asset income data have been adjusted for 1979 through 1983, however, to make them comparable to 1984, 1985, 1986 and 1987 data. This adjustment involved applying a more detailed methodology to impute asset income to people who reported receiving asset income but did not report the amount received. The effect of the changes is to increase incomes, particularly for the elderly. For the entire population, the poverty rate is reduced by about 0.1 percentage point in each year, 1979 through 1983. It was not possible, however, to adjust the data from earlier years to reflect the other change made in 1984, the revised weighting of persons of Hispanic origin.

Federal personal income taxes and Social Security payroll taxes were estimated with a microsimulation model using tax schedules and laws in effect in each year. In order to make taxes consistent with the incomes reported in the CPS, no adjustments were made for CPS underreporting and taxes were not estimated for capital gains or other taxable income not reported in the CPS. Statistics of Income (SOI) data were used to assign itemized deductions and Individual Retirement Account (IRA) contributions to tax filing units, while child care expenses were estimated based on data from the 1979 Panel Study of Income Dynamics (PSID). Payroll tax estimates were based on self-employment income and wages and salaries of all workers except Federal, railroad, and some state employees.

All valuations of in-kind transfers are those estimated by the Bureau of the Census using a *market value* valuation technique.[7] The market value generally attempts to measure the private market cost of benefits provided in-kind. Food stamps are assigned their value, while school lunches are assigned the average amount of Federal subsidy per child. Housing assistance is valued as the difference between the estimated market rent (based on the American Housing Survey) and the reduced rent paid by subsidized households.

Poverty under six different income concepts is measured. "Cash income before transfers" is all cash income prior to any benefits from government programs. This would include all earnings, pension income, income from savings, self-employment income, etc. "Plus social insurance" adds to cash income all benefits from social insurance (except Social Security) programs, such as workers' compensation and unemployment compensation. "Plus Social Security" adds to cash income and social insurance income benefits from the Social Security programs. "Plus means-tested cash transfers" adds to cash income and social insurance income all means-tested transfer income such as aid to families with dependent children, supplemental security income, and general assistance. "Plus food and housing" adds to cash, social insurance and means-tested cash income all means-tested in-kind transfers received for food and housing. This would include food stamps, housing programs and school lunch programs. Benefits are valued using the *market value* method. "Less Federal taxes" subtracts from income Federal income taxes and the employee portion of Federal payroll taxes.

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[7] See Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," Technical Paper 50, March 1982, for a discussion of the estimation methods. Technical papers 51, 52, 55, and 56 provide data for all years from 1979 through 1985.

Results

Table 16 shows that before any governmental transfers, 49.7 million individuals would have been poor in 1987. With social insurance benefits, 34.4 million individuals are poor; a reduction of 15.3 million. Means-tested cash and in-kind transfers reduce the poverty count by an additional 5.4 million individuals.

In 1979, 15.0 percent of all poor individuals were removed from poverty due to means-tested transfers and Federal tax policy. In 1983, this had declined to 5.7 percent. Beginning in 1984, the downward trend reversed itself and the percentage increased to 6.6 percent in 1986. By 1987, largely due to the effect of the 1986 Tax Reform Act, which reduced tax liability for low-income families, the percentage increased even further to 8.0 percent.

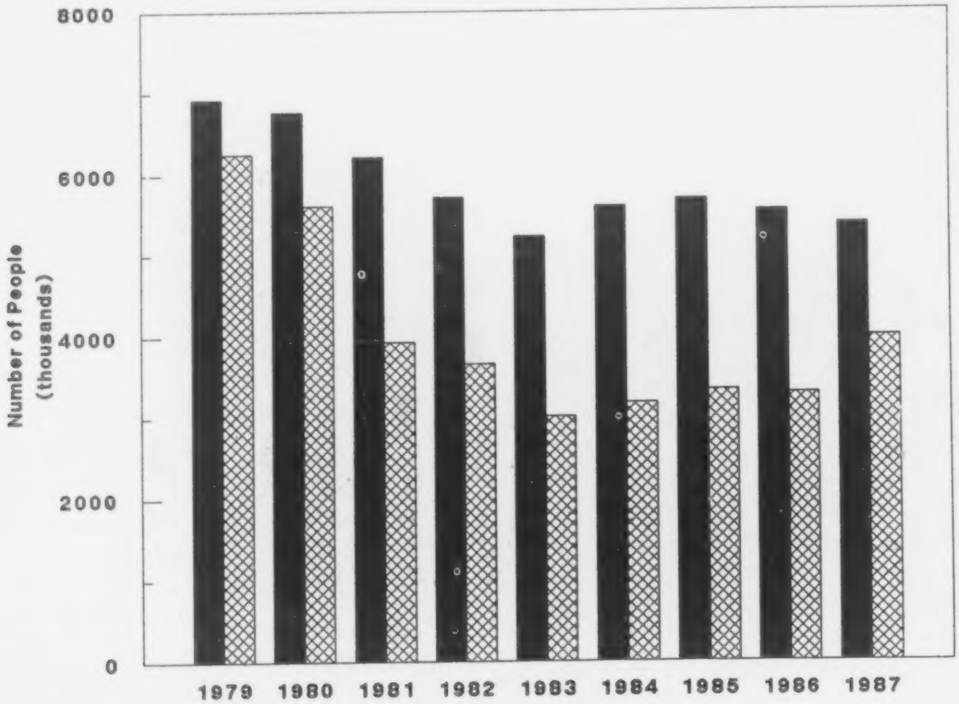
Tables 17, 18, and 19 display the effectiveness of social insurance and means-tested programs in eliminating poverty among individuals in families with children. Table 17 presents information on individuals in all families with children under 18 years old; table 18 presents information on individuals in families that are headed by an unmarried individual and have children under 18 years old; and table 19 presents information on individuals in married-couple families with children under 18 years old. Table 18 shows that in 1979 approximately 30 percent of individuals in single-parent families were removed from poverty as the result of means-tested transfers, food and housing benefits, and Federal tax policy. By 1987, this had declined to 16 percent. Similarly, the percentage reduction in the poverty gap due to means-tested transfers and Federal tax policy fell from 56 percent to 52 percent.

Table 20 displays the effectiveness of social insurance and means-tested transfer programs in eliminating poverty among the elderly over the 1979–1987 period. The table shows that over this period the antipoverty effectiveness of both social insurance and means-tested programs improved for the elderly: despite a significant increase in the overall elderly population, the number of individuals in poverty actually declined, and the poverty gap remained fairly level. The numbers of individuals removed from poverty by social insurance programs increased from 7.1 to 8.6 million between 1979 and 1987. The percentage of elderly individuals removed from poverty due to social insurance programs increased from 68.3 percent to 73.5 percent from 1979 to 1987. The number removed from poverty by means-tested transfer programs increased from 716,000 to 760,000 over the same period.

Chart 2 below is based upon table 16. It illustrates the number of individuals removed from poverty due to means-tested benefits (dark bars) for each year from 1979 to 1987. The cross-hatched bars illustrate the number of people removed from poverty after means-tested benefits and Federal income and payroll taxes. The difference between these two bars for a given year is the number of individuals added to poverty because of Federal taxes. Thus, for example, the total number removed from poverty due to means-tested cash, food and housing benefits was 6.2 million in 1981. Federal taxes added to poverty 2.3 million individuals, leaving the net number removed from poverty at 3.9 million. From 1986 to 1987, the number added to poverty because of taxes decreased by 865,000.

CHART 2

NUMBER OF INDIVIDUALS REMOVED FROM POVERTY DUE TO MEANS-TESTED BENEFITS AND NUMBER ADDED TO POVERTY DUE TO TAXES, 1979-1987



Note: In 1979, a total of 6,915,000 persons had their income raised above the poverty level due to means-tested cash, food and housing benefits. 675,000 individuals were added to poverty due to taxes, leaving a net number of 6,240,000 removed from poverty.

TABLE 16.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL INDIVIDUALS IN FAMILIES OR LIVING ALONE, 1979–87

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of poor individuals (thousands):									
Cash income before transfers	41,695	46,273	49,184	51,942	52,700	50,943	50,462	49,702	49,679
Plus social insurance (other than Social Security)	39,835	44,016	46,974	48,989	49,468	48,690	48,208	47,466	47,731
Plus Social Security	27,846	31,638	33,909	36,204	36,928	35,702	35,171	34,534	34,380
Plus means-tested cash transfers (official definition)	25,201	29,114	31,567	34,200	35,030	33,700	33,064	32,370	32,546
Plus food and housing benefits	20,931	24,882	27,703	30,493	31,697	30,103	29,489	28,988	29,004
Less Federal taxes	21,606	26,030	29,983	32,549	33,923	32,529	31,840	31,249	30,400
Number of individuals removed from poverty due to (thousands):									
Social insurance (other than Social Security)	1,860	2,257	2,210	2,953	3,232	2,253	2,254	2,236	1,948
Social insurance (including Social Security)	13,849	14,635	15,275	15,738	15,772	15,241	15,291	15,168	15,299
Means-tested cash, food, and housing benefits	6,915	6,756	6,206	5,711	5,231	5,599	5,682	5,546	5,376
Federal taxes	−675	−1,148	−2,280	−2,056	−2,226	−2,426	−2,351	−2,261	−1,396
Percent of individuals removed from poverty due to:									
Social insurance (including Social Security)	33.2	31.6	31.1	30.3	29.9	29.9	30.3	30.5	30.8
Means-tested cash, food and housing benefits and Federal taxes	15.0	12.1	8.0	7.0	5.7	6.2	6.6	6.6	8.0
Poverty gap (millions of 1987 dollars):									
Cash income before transfers	100,276	111,613	118,235	123,562	126,720	122,517	122,327	122,905	124,246
Plus social insurance (other than Social Security)	93,481	103,424	110,471	114,739	116,617	114,939	115,427	116,299	117,820
Plus Social Security	51,881	58,398	63,763	68,480	71,431	69,047	68,280	68,678	69,419
Plus means-tested cash transfers (official definition)	35,981	41,415	46,782	51,287	53,231	50,671	50,480	50,987	51,650

Plus food and housing benefits	28,176	32,239	37,441	40,687	42,409	40,021	39,929	40,316	40,434
Less Federal taxes	28,628	32,945	38,734	42,119	43,988	41,747	41,601	41,948	41,394
Percentage reduction in poverty gap due to:									
Social insurance (including Social Security)	48.3	47.7	46.1	44.6	43.6	43.6	44.2	44.1	44.1
Means-tested cash, food and housing benefits and Federal taxes	23.2	22.8	22.8	21.3	21.7	22.3	21.8	21.7	22.6
Poverty rate (in percent):									
Cash income before transfers	19.1	20.6	21.7	22.6	22.8	21.8	21.3	20.8	20.6
Plus social insurance (other than Social Security)	18.3	19.6	20.7	21.4	21.4	20.8	20.4	19.9	19.8
Plus Social Security	12.8	14.1	14.9	15.8	15.9	15.3	14.9	14.5	14.3
Plus means-test cash transfers (official definition)	11.6	12.9	13.9	14.9	15.1	14.4	14.0	13.6	13.5
Plus food and housing benefits	9.6	11.1	12.2	13.3	13.7	12.9	12.5	12.2	12.0
Less Federal taxes	9.9	11.6	13.2	14.2	14.6	13.9	13.5	13.1	12.6

Source: Congressional Budget Office and committee staff.

TABLE 17.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL INDIVIDUALS IN FAMILIES WITH RELATED CHILDREN LESS THAN 18, 1979–87

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of poor individuals (thousands):									
Cash income before transfers	21,510	24,795	26,446	28,759	28,935	27,277	26,639	26,121	25,735
Plus social insurance (other than Social Security)	20,559	23,518	25,204	26,895	26,948	26,010	25,368	24,824	24,689
Plus Social Security	18,599	21,544	23,111	25,036	25,255	24,408	23,701	23,292	23,222
Plus means-tested cash transfers (official definition)	16,808	19,902	21,553	23,796	24,246	23,301	22,547	22,111	22,157
Plus food and housing benefits	13,261	16,463	18,465	20,903	21,736	20,616	19,847	19,572	19,548
Less Federal taxes	13,638	17,370	20,159	22,503	23,420	22,405	21,586	21,199	20,295
Number of individuals removed from poverty due to (thousands):									
Social insurance (other than Social Security)	951	1,277	1,242	1,864	1,987	1,267	1,271	1,297	1,046
Social insurance (including Social Security)	2,911	3,251	3,335	3,723	3,680	2,869	2,938	2,829	2,513
Means-tested cash, food, and housing benefits	5,338	5,081	4,646	4,133	3,519	3,792	3,854	3,720	3,674
Federal taxes	−377	−807	−1,694	−1,600	−1,684	−1,789	−1,739	−1,627	−747
Percent of individuals removed from poverty due to:									
Social insurance (including Social Security)	13.5	13.1	12.6	12.9	12.7	10.5	11.0	10.8	9.8
Means-tested cash, food and housing benefits and Federal taxes	23.1	17.2	11.2	8.8	6.3	7.3	7.9	8.0	11.4
Poverty gap (millions of 1987 dollars):									
Cash income before transfers	37,976	44,120	46,721	51,466	52,785	49,614	48,558	48,472	48,668
Plus social insurance (other than Social Security)	35,801	40,886	43,606	47,604	48,349	46,705	46,090	45,998	46,643
Plus Social Security	30,505	35,446	37,860	42,230	43,154	41,741	40,861	41,006	41,643
Plus means-tested cash transfers (official definition)	19,610	23,545	26,114	30,135	30,612	29,339	28,633	28,609	29,325

Plus food and housing benefits	13,208	15,949	18,535	21,296	21,603	20,564	19,874	19,782	20,042
Less Federal taxes	13,202	16,090	19,068	21,953	22,353	21,397	20,611	20,471	20,121
Percentage reduction in poverty gap due to:									
Social insurance (including Social Security)	19.7	19.7	19.0	17.9	18.2	15.9	15.9	15.4	14.4
Means-tested cash, food and housing benefits and Federal taxes	45.6	43.9	40.2	39.4	39.4	41.0	41.7	42.4	44.2
Poverty rate (in percent):									
Cash income before transfers	16.5	18.6	20.0	21.7	21.9	20.7	20.0	19.5	19.2
Plus social insurance (other than Social Security)	15.8	17.6	19.0	20.3	20.4	19.7	19.0	18.5	18.4
Plus Social Security	14.3	16.1	17.4	18.9	19.2	18.5	17.8	17.4	17.3
Plus means-tested cash transfers (official definition)	12.9	14.9	16.3	17.9	18.4	17.6	16.9	16.5	16.5
Plus food and housing benefits	10.2	12.3	13.9	15.7	16.5	15.6	14.9	14.6	14.6
Less Federal taxes	10.5	12.9	15.2	17.0	17.8	17.0	16.2	15.8	15.1

Source: Congressional Budget Office and Committee staff.

TABLE 18.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR INDIVIDUALS IN ALL UNITS WITH AN UNMARRIED HEAD AND RELATED CHILDREN LESS THAN 18, 1979–1987

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of poor individuals (thousands):									
Cash income before transfers	11,480	12,458	12,915	13,594	13,751	13,774	13,685	14,069	14,259
Plus social insurance (other than Social Security)	11,271	12,207	12,689	13,284	13,501	13,513	13,391	13,790	14,040
Plus Social Security	10,367	11,201	11,858	12,579	12,611	12,786	12,581	13,143	13,306
Plus means-tested cash transfers (official definition)	9,230	10,362	10,987	11,903	12,063	12,132	11,943	12,487	12,661
Plus food and housing benefits	6,901	8,363	9,191	10,312	10,531	10,473	10,418	10,879	10,963
Less Federal taxes	6,925	8,433	9,423	10,611	10,800	10,695	10,670	11,217	10,977
Number of individuals removed from poverty due to (thousands):									
Social insurance (other than Social Security)	209	251	226	310	250	261	294	279	219
Social insurance (including Social Security)	1,113	1,257	1,057	1,015	1,140	988	1,104	926	953
Means-tested cash, food and housing benefits	3,466	2,838	2,667	2,267	2,080	2,313	2,163	2,264	2,343
Federal taxes	−24	−70	−232	−299	−269	−222	−252	−338	−14
Percent of individuals removed from poverty due to:									
Social insurance (including Social Security)	9.7	10.1	8.2	7.5	8.3	7.2	8.1	6.6	6.7
Means-tested cash, food and housing benefits and Federal taxes	30.0	22.2	18.9	14.5	13.2	15.2	14.0	13.7	16.3
Poverty gap (millions of 1987 dollars):									
Cash income before transfers	24,431	26,996	28,350	30,452	31,519	30,680	30,722	31,942	32,661
Plus social insurance (other than Social Security)	23,742	26,050	27,550	29,463	30,358	29,687	29,822	31,216	31,975
Plus Social Security	20,952	23,010	24,657	26,597	27,361	27,046	26,790	28,518	29,172
Plus means-tested cash transfers (official definition)	12,014	13,785	15,448	17,309	17,976	17,580	17,562	18,815	19,358

Plus food and housing benefits	7,446	8,406	9,960	11,073	11,682	11,341	11,181	12,119	12,304
Less Federal taxes	7,392	8,384	10,008	11,157	11,756	11,440	11,263	12,221	12,175
Percentage reduction in poverty gap due to:									
Social insurance (including Social Security)	14.2	14.8	13.0	12.7	13.2	11.8	12.8	10.7	10.7
Means-tested cash, food and housing benefits and Federal taxes	55.5	54.2	51.7	50.7	49.5	50.9	50.5	51.0	52.0
Poverty rate (in percent):									
Cash income before transfers	50.0	51.6	52.1	54.5	53.8	51.5	50.7	51.4	50.9
Plus social insurance (other than Social Security)	49.1	50.6	51.2	53.2	52.8	50.5	49.6	50.3	50.1
Plus Social Security	45.1	46.4	47.8	50.4	49.3	47.8	46.6	48.0	47.5
Plus means-tested cash transfers (official definition)	40.2	43.0	44.3	47.7	47.2	45.3	44.3	45.6	45.2
Plus food and housing benefits	30.0	34.7	37.1	41.3	41.2	39.1	38.6	39.7	39.1
Less Federal taxes	30.1	35.0	38.0	42.5	42.2	40.0	39.6	40.9	39.2

Source: Congressional Budget Office and Committee staff.

TABLE 19.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL INDIVIDUALS IN MARRIED-COUPLE FAMILIES WITH RELATED CHILDREN LESS THAN 18, 1979–87

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of poor individuals (thousands):									
Cash income before transfers	10,030	12,337	13,531	15,165	15,184	13,503	12,954	12,052	11,477
Plus social insurance (other than Social Security)	9,288	11,311	12,515	13,611	13,447	12,497	11,977	11,034	10,649
Plus Social Security	8,232	10,343	11,253	12,457	12,644	11,622	11,120	10,149	9,916
Plus means-tested cash transfers (official definition)	7,578	9,540	10,566	11,893	12,183	11,169	10,604	9,624	9,496
Plus food and housing benefits	6,360	8,100	9,274	10,591	11,205	10,143	9,429	8,693	8,585
Less Federal taxes	6,713	8,937	10,736	11,892	12,620	11,710	10,916	9,982	9,318
Number of individuals removed from poverty due to (thousands):									
Social insurance (other than Social Security)	742	1,026	1,016	1,554	1,737	1,006	977	1,018	828
Social insurance (including Social Security)	1,798	1,994	2,278	2,708	2,540	1,881	1,834	1,903	1,561
Means-tested cash, food and housing benefits	1,872	2,243	1,979	1,866	1,439	1,479	1,691	1,456	1,331
Federal taxes	−353	−837	−1,462	−1,301	−1,415	−1,567	−1,487	−1,289	−733
Percent of individuals removed from poverty due to:									
Social insurance (including Social Security)	17.9	16.2	16.8	17.9	16.7	13.9	14.2	15.8	13.6
Means-tested cash, food and housing benefits and Federal taxes	15.1	11.4	3.8	3.7	0.2	−0.7	1.6	1.4	5.2
Poverty gap (millions of 1987 dollars):									
Cash income before transfers	13,546	17,123	18,371	21,014	21,266	18,934	17,837	16,530	16,007
Plus social insurance (other than Social Security)	12,059	14,836	16,057	18,141	17,991	17,019	16,268	14,782	14,668
Plus Social Security	9,554	12,436	13,204	15,632	15,794	14,695	14,072	12,488	12,471
Plus means-tested cash transfers (official definition)	7,596	9,759	10,665	12,826	12,636	11,759	11,071	9,794	9,967

Plus food and housing benefits	5,762	7,543	8,575	10,223	9,921	9,223	8,693	7,662	7,738
Less Federal taxes	5,809	7,707	9,060	10,795	10,597	9,957	9,348	8,251	7,946
Percentage reduction in poverty gap due to:									
Social insurance (including Social Security)	29.5	27.4	28.1	25.6	25.7	22.4	21.1	24.5	22.1
Means-tested cash, food and housing benefits and Federal taxes	27.6	27.6	22.6	23.0	24.4	25.0	26.5	25.6	28.3
Poverty rate (in percent):									
Cash income before transfers	9.4	11.2	12.6	14.1	14.3	12.8	12.2	11.3	10.8
Plus social insurance (other than Social Security)	8.7	10.3	11.6	12.6	12.7	11.9	11.3	10.4	10.0
Plus Social Security	7.7	9.4	10.4	11.6	11.9	11.0	10.5	9.5	9.4
Plus means-tested cash transfers (official definition)	7.1	8.7	9.8	11.0	11.5	10.6	10.0	9.0	9.0
Plus food and housing benefits	5.9	7.4	8.6	9.8	10.5	9.6	8.9	8.2	8.1
Less Federal taxes	6.3	8.1	10.0	11.0	11.9	11.1	10.3	9.4	8.8

Source: Congressional Budget Office and Committee staff.

TABLE 20.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR INDIVIDUALS IN UNITS WITH ALL MEMBERS 65 OR OLDER, 1979–87

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of poor individuals (thousands):									
Cash income before transfers	10,385	10,821	10,884	10,772	10,843	11,009	11,200	11,550	11,741
Plus social insurance (other than Social Security)	10,165	10,650	10,763	10,604	10,654	10,862	11,033	11,334	11,546
Plus Social Security	3,288	3,441	3,353	3,226	3,231	3,072	3,146	3,176	3,114
Plus means-tested cash transfers (official definition)	2,936	3,133	3,066	3,005	2,928	2,717	2,831	2,874	2,866
Plus food and housing benefits	2,572	2,708	2,621	2,631	2,520	2,250	2,347	2,436	2,354
Less Federal taxes	2,577	2,717	2,644	2,638	2,533	2,256	2,353	2,446	2,363
Number of individuals removed from poverty due to (thousands):									
Social insurance (including Social Security)	7,097	7,380	7,531	7,546	7,612	7,937	8,054	8,374	8,627
Means-tested cash, food and housing benefits	716	733	732	595	711	822	799	740	760
Federal taxes	−5	−9	−23	−7	−13	−6	−6	−10	−9
Percent of individuals removed from poverty due to (thousands):									
Social insurance (including Social Security)	68.3	68.2	69.2	70.1	70.2	72.1	71.9	72.5	73.5
Means-tested cash, food and housing benefits and Federal taxes	6.8	6.7	6.5	5.5	6.4	7.4	7.1	6.3	6.4
Poverty gap (millions of 1987 dollars):									
Cash income before transfers	34,245	36,755	36,983	36,633	36,430	36,869	37,796	39,144	39,230
Plus social insurance (other than Social Security)	32,635	35,184	35,751	35,528	35,119	35,605	36,553	37,904	37,833
Plus Social Security	5,854	5,864	5,706	5,852	5,683	5,232	5,508	5,611	5,540
Plus means-tested cash transfers (official definition)	3,901	3,916	3,999	4,163	3,728	3,306	3,733	3,965	3,924

Plus food and housing benefits	3,369	3,329	3,389	3,634	3,242	2,770	3,151	3,385	3,274
Less Federal taxes	3,379	3,342	3,398	3,643	3,254	2,777	3,158	3,395	3,285
Percentage reduction in poverty gap due to:									
Social insurance (including Social Security)	82.9	84.0	84.6	84.0	84.4	85.8	85.4	85.7	85.9
Means-tested cash, food and housing benefits and Federal taxes	7.2	6.9	6.2	6.0	6.7	6.7	6.2	5.7	5.7
Poverty rate for individuals (in percent):									
Cash income before transfers	60.0	60.1	58.9	57.3	56.2	56.3	56.6	55.8	55.6
Plus social insurance (other than Social Security)	58.7	59.1	58.2	56.4	55.3	55.5	55.7	54.7	54.7
Plus Social Security	19.0	19.1	18.1	17.2	16.8	15.7	15.9	15.3	14.7
Plus means-tested cash transfers (official definition)	17.0	17.4	16.6	16.0	15.2	13.9	14.3	13.9	13.6
Plus food and housing benefits	14.9	15.0	14.2	14.0	13.1	11.5	11.8	11.8	11.1
Less Federal taxes	14.9	15.1	14.3	14.0	13.1	11.5	11.9	11.8	11.2

Source: Congressional Budget Office and Committee staff.

EXPLANATIONS FOR INCREASES IN POVERTY BETWEEN 1979 AND 1987

As noted in table 16 of the previous subsection, between 1979 and 1987 the number of poor persons (using a modified definition of poverty which includes market and social insurance income, means-tested transfers and Federal taxes) increased from 21.6 to 30.4 million, representing a net increase in the poverty population of 41 percent, and an increase in the poverty rate from 9.9 percent to 12.6 percent. The aggregate "poverty gap," which is the difference between a poor family's disposable income and the poverty level, summed across all poor families, grew from $28.6 billion to $41.4 billion (in real 1987 dollars), representing an increase of $12.8 billion.

Several factors have potentially contributed to these changes in the level of poverty and the poverty gap, including demographic changes (size and composition of the population), changes in wages and other private sources of income (market income) relative to inflation, and changes in the effectiveness of Federal social programs and tax policy. The goal of this analysis is to determine how significant a contribution each of these factors has made to the increase in the number of poor persons and the poverty gap noted above. Because individuals in different family types have been differentially affected by each of these factors, this analysis seeks to highlight trends for individuals in various family types.

METHODOLOGY

A family is officially classified as poor if cash income (wages, pensions, Social Security benefits, AFDC benefits and all other forms of cash income) is less than the poverty threshold. The poverty threshold in 1987 was $11,611 for a family of four persons. For the purpose of this analysis, this official definition of poverty was modified by adding near-cash benefits (such as the value of food and housing benefits) to income, and subtracting Federal income and payroll taxes from income. If this "disposable income" was less than the poverty threshold, all the individuals in the family were classified as poor. With the exception of changes in Government health programs such as Medicare and Medicaid, this "disposable income" poverty measure is sensitive to all policy changes in the major social insurance and means-tested programs. To highlight the difference between this modified definition of poverty and the official definition of poverty, note that under the official definition of poverty the number of persons classified as poor increased 20.6 percent between 1979 and 1987, from 25.2 million to 30.4 million. The official poverty rate increased from 11.7 to 13.5 percent.

This analysis is based on the data in the previous subsection for 1979 and 1987 which describe the antipoverty effectiveness of various cash and noncash sources of income. To determine what factors have contributed to changes in the poverty of individuals in each family type, this analysis compares the effectiveness of each factor in removing individuals from poverty in 1979 with its effectiveness in 1987. A similar analysis is repeated to evaluate which factors have contributed most to the increase in the poverty gap. Note that these findings are only suggestive of general trends over this specified time period.

As an example, the numbers for individuals in families headed by an unmarried person were calculated based on the following set of data taken from table 18.

	1979 actual	1979: marginal percent left in poverty	1987 expected	1987 actual
Total population	22,978,000		28,020,000	28,020,000
Number poor, market income only	11,480,000	50.0	13,999,000	14,259,000
Number poor, market and social insurance income	10,367,000	90.3	12,877,000	13,306,000
Number poor, market and social insurance income and means-tested transfers (including food and housing)	6,901,000	66.6	8,857,000	10,963,000
Number poor, all cash income and means-tested transfers, after Federal taxes (payroll and income)	6,925,000	100.3	11,001,000	10,977,000

These data show that if one takes into account market income only, 50.0 percent of individuals in this family type would have been classified as poor in 1979. If market income had been as successful in taking people out of poverty in 1987 as in 1979, 13,999,000 (approximately 50.0%×28,020,000) individuals would have been poor counting only market income. However, 14,259,000 individuals were actually poor in 1987, implying an increase in the poverty population due to market income of 260,000.

In 1979, social insurance income left in poverty 90.3 percent of those in poverty counting only market income. To determine the marginal effect of social insurance income on the increased number of poor between 1979 and 1987, one applies this percentage to the number actually poor in 1987 after market income. If social insurance income had been as successful in taking people out of poverty in 1987 as in 1979, 12,877,000 (90.3%×14,259,000) individuals would have been poor counting both market and social insurance income. However, 13,306,000 individuals were actually poor in 1987, implying an increase in the poverty population due to social insurance income of 429,000. This methodology was repeated to gauge the impact of both means-tested transfers and Federal taxes on the increased number in poverty.

Because the population grew 10.6 percent over the 1979–87 period, the effect of "average" population growth was computed. Counting all sources of income (market and social insurance income, means-tested transfers, and Federal taxes), 30.1 percent of the population was left in poverty in 1979. Assuming these sources of income had the same effect on the number poor in 1987 as in 1979, but population grew 10.6 percent, we would expect an increase in the poverty population of 732,000 (22,978,000×10.6%×30.1%).

Finally, the increase in the number poor that could not be attributed to the changed effectiveness of the various income sources or to average population growth was attributed to an "other" category. Among other things, this category would take into account above- or below-average population growth.

This procedure was followed to attribute increases in poverty for each family type, and to attribute increases in the poverty gap for each family type.

EXPLANATIONS FOR THE INCREASE IN THE POVERTY POPULATION

Table 21 presents data which suggest the factors contributing to the increase in the number of poor persons between 1979 and 1987, broken down by type of family. The last column of the table illustrates the overall contribution of each factor. Based on this methodology, changes in means-tested programs added 3.2 million people to the poverty population, changes in market income added 1.1 million, changes in Federal tax policy added 0.5 million, and changes in social insurance programs added roughly 0.9 million. Population growth and all other changes added an additional 3.1 million. In percentage terms, the largest contributing factor was the reduced effectiveness of means-tested welfare programs (36 percent), followed by population growth (26 percent), changes in market income (13 percent), the reduced effectiveness of social insurance programs (11 percent), and the reduced effectiveness of Federal tax policy (5 percent).

Individuals in families with children headed by an unmarried person accounted for 46 percent of the total increase in the number of poor persons, although they comprise but 12 percent of the population. Means-tested welfare programs tend to be targeted toward this group, and they rely more heavily on these programs to escape poverty than other individuals. The reduced effectiveness of means-tested welfare programs accounted for 52 percent of the increase in poverty among this group. Population growth and other residual changes accounted for 32 percent. Other factors (changes in the effectiveness of market income and social insurance programs) each accounted for roughly 10 percent. Changes in Federal tax policy over the period actually reduced the poverty population in this family type. Note that the result is due primarily to passage of the Tax Reform Act of 1986, which reduced tax liability for low-income families.

Individuals in families with children headed by a married couple accounted for 30 percent of the total increase in the number of poor persons, although they comprise 44 percent of the population. These individuals are often not eligible for means-tested programs and tend to rely more heavily on earnings to escape poverty. Declining market incomes relative to inflation were a major contributing factor to their increase in poverty (61 percent), followed by the reduced effectiveness of means–tested programs (35 percent), the reduced effectiveness of social insurance programs (19 percent), and the reduced effectiveness of Federal tax policy (10 percent). Population growth and "other" factors (primarily demographic changes) reduced the number in poverty in this group by 650,000, representing an offsetting contribution of 25 percent to the total increase in poverty.

Individuals in households with all members over 65, who comprise 9 percent of the total population, experienced a very small net decline in the size of their poverty population. This occurred even though population growth among individuals in this group was much higher than average, adding over 1 million individuals to the poverty population. The net decline in the number poor was so small that it makes little sense to look at the percentage contribution of each of the factors. What is most surprising is that market income, which includes private pensions, reduced the official pretransfer poverty rate over this 7-year period (although not shown in the table, the official poverty rate fell by 4 percentage points). With the exception of the 6-month COLA delay, no significant Social Security policy changes occurred for this group. Real Social Security benefits and SSI benefits increased; consequently, both social insurance and welfare programs were more effective in removing individuals in this group from poverty in 1987 than they were in 1979.

Individuals in "other" family types include nonelderly individuals and married couples without children, and other family groups without children that are not 100 percent elderly. Individuals in this group accounted for 27 percent of the increase in the poverty population, although they comprise 36 percent of the total population. The reduced effectiveness of social insurance programs accounted for 27 percent of the increase in the number poor, as UI benefits decreased in real terms and eligibility for UI and student benefits was tightened (in particular, eligibility standards for part-year and/or part-time individuals were raised by the States). This group was also affected by tightened disability insurance eligibility. As individuals in this group tend not to be eligible for most types of means-tested welfare benefits, changes in welfare programs contributed much less to increases in this group's poverty population. Changes in market income and Federal tax policy together accounted for 20 percent of the increase. Population growth and other residual changes accounted for 44 percent of the increase in the number poor in this family type.

EXPLANATIONS FOR THE INCREASE IN THE POVERTY GAP

The poverty gap is an important complementary approach to evaluating poverty. Over time changes in income and the effectiveness of Federal programs and policies may do little to reduce the number who are counted as poor, but may have a very real impact in reducing the degree of poverty. This is especially relevant when one considers that eligibility was tightened in some Federal programs, such as UI and Social Security, while benefits were reduced in others, such as AFDC and food stamps. Eligibility tightening in programs tends to make a greater percentage contribution to increases in the poverty gap than to increases in the poverty population.

Table 22 presents data which suggest the factors contributing to the increase in the poverty gap between 1979 and 1987, broken down by type of family. The last column of the table illustrates the overall contribution of each factor. Population growth, changes in market incomes and other residual changes accounted for 50 percent of the increase in the aggregate poverty gap, followed by social insurance programs (26 percent), means-tested program changes (21 percent), and changes in Federal tax policy (2 percent).

Individuals in families with children headed by an unmarried person accounted for 37 percent of the increase in the aggregate poverty gap. The reduced effectiveness of means-tested transfer programs accounted for 40 percent of this increase, followed by population growth, changes in market income and other residual changes (36 percent), social insurance programs (24 percent), and Federal tax policy changes (−1 percent). Changes in means-tested programs reduced the aggregate income of this group by $1.9 billion out of a total $4.8 billion loss.

Individuals in married-couple families with children accounted for 17 percent of the increase in the aggregate poverty gap. Reduced effectiveness of means-tested welfare programs contributed little to the total implied income loss of $2.1 billion. Changes in earnings, and social insurance programs were most significant.

Individuals in "other" family types accounted for 47 percent of the increase in the aggregate poverty gap. This is primarily due to this group's tendency to rely more on social insurance programs, and the tighter eligibility requirements in these programs over this period. Social insurance programs accounted for 36 percent of the total income loss among this group of $5.9 billion.

IMPACT ON THE SIZE OF THE POVERTY POPULATION AND THE POVERTY GAP IF TAX REFORM HAD BEEN IN EFFECT IN 1987

Table 23 presents data from CBO which describe the net number of persons taken out of poverty and the net reduction in the poverty gap in 1987 if policies enacted in the 1986 tax reform law had been fully in effect. Overall, it is estimated that the tax reform policies would have removed an additional 300,000 people from poverty, and would have reduced the aggregate poverty gap by an additional $200 million if tax reform had been fully in effect in calendar year 1987.

TABLE 21.—SOURCES OF THE INCREASE IN THE POVERTY POPULATION BETWEEN 1979 AND 1987, BY TYPE OF FAMILY, USING OFFICIAL POVERTY THRESHOLDS

[Thousands of persons]

	Type of family					Total
	All families with children under 18			All members over age 65	Other	
	Unmarried head	Married couple	Total			
Increased number of after-transfer poor (1979–1987) due to:						
Average population growth	732	710	1,442	273	570	2,285
Market income changes	260	1,577	1,837	−934	224	1,127
Social insurance program changes	429	497	927	−603	624	947
Means-tested program changes	2,106	924	3,030	−82	220	3,168
Federal tax changes	−24	257	232	4	232	469
Other (primarily demographic)	549	−1,360	−811	1,128	481	798
Total increase	4,052	2,605	6,657	−214	2,351	8,794
Percent of total increase	46	30	76	−2	27	100
Percent of total population	12	44	56	9	36	100
Percentage contribution, by source:						
Average population growth	18	27	22	NA	24	26
Market income changes	6	61	28	NA	10	13
Social insurance program changes	11	19	14	NA	27	11
Means-tested program changes	52	35	46	NA	9	36
Federal tax changes	−1	10	3	NA	10	5
Other (primarily demographic)	14	−52	−12	NA	20	9
Total	100	100	100	NA	100	100

TABLE 22.—SOURCES OF THE INCREASE IN THE POVERTY GAP BETWEEN 1979 AND 1987, BY TYPE OF FAMILY

[Constant 1987 dollars, in millions]

	Type of family					Total
	All families with children under 18			All members over age 65	Other	
	Unmarried head	Married couple	Total			
Increase in poverty gap (1979–1987) due to:						
Market incomes/demographic/other	1,725	594	2,319	985	3,105	6,409
Social insurance program changes	1,161	1,182	2,343	−1,166	2,125	3,302
Means-tested program changes	1,937	216	2,153	86	502	2,740
Federal tax changes	−40	145	105	1	207	313
Total increase	4,783	2,137	6,920	−94	5,939	12,764
Percent of total increase	37	17	54	−1	47	100
Percentage contribution, by source:						
Market incomes/demographic/other	36	28	34	NA	52	50
Social insurance program changes	24	55	34	NA	36	26
Means-tested program changes	40	10	31	NA	8	21
Federal tax changes	−1	7	2	NA	3	2
Total increase	100	100	100	NA	100	100

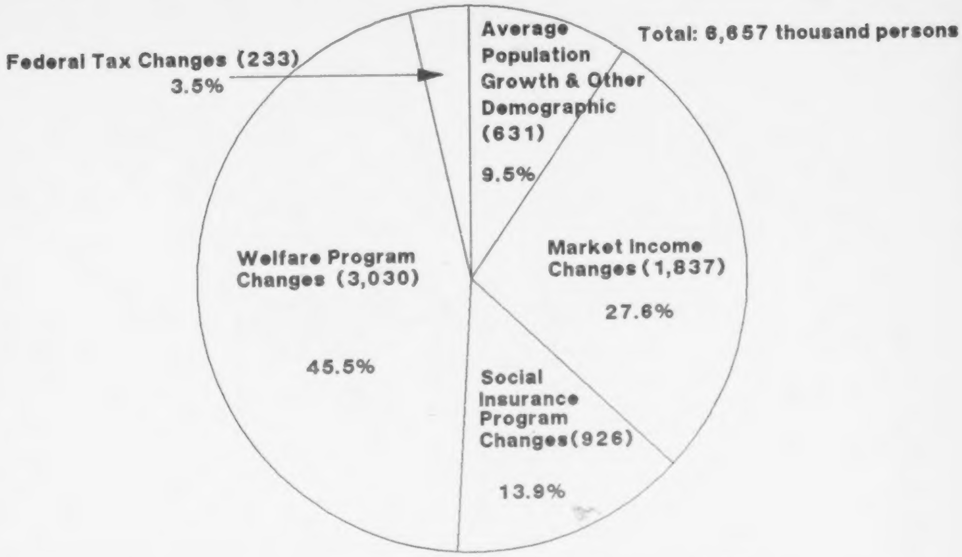
TABLE 23.—REDUCTION IN POVERTY POPULATION AND THE POVERTY GAP ASSUMING TAX REFORM IN EFFECT IN 1987, BY TYPE OF FAMILY

	Type of family					Total
	All families with children under 18			All members over age 65	Other	
	Unmarried head	Married couple	Total			
Poverty Population (thousands)						
Number added to poverty between 1979 and 1987 due to Federal tax changes	−24	257	232	4	232	469
Number added to poverty between 1979 and 1987 due to Federal tax changes, assuming tax reform in effect in 1987	−95	−3	−99	4	223	129
Reduction in poverty population as a result of tax reform	71	260	331	0	9	340
Poverty Gap (millions of dollars)						
Increase in poverty gap between 1979 and 1987 due to Federal tax changes	−40	145	105	1	207	313
Increase in poverty gap between 1979 and 1987 due to Federal tax changes, assuming tax reform in effect in 1987	−65	−31	−96	2	188	94
Reduction in poverty gap as a result of tax reform	25	176	201	−1	19	219

Chart 3, based on numbers in table 21, illustrates the sources of the increase in the number of poor persons among families with children under 18 years old between 1979 and 1987.

CHART 3

SOURCES OF THE INCREASE IN THE NUMBER OF POOR PERSONS AMONG FAMILIES WITH CHILDREN UNDER 18 YEARS OLD, BETWEEN 1979 AND 1987 (in thousands of persons)



Source: Committee Staff calculations based on data derived from the CPS by the Congressional Budget Office.

IMPACT ON ANALYSIS IF ALTERNATIVE PRICE INDEX IS USED

Table 24 presents results similar to those of table 21; however, the analysis in table 24 is based upon poverty thresholds deflated from 1987 using an alternative price index, the CPI–X1. Using this alternative price index rather than the official Consumer Price Index (the CPI) raises the 1979 poverty thresholds by just under 3 percent—about $220 for a family of four. As a result, more people were counted poor in 1979 under this alternative threshold, and there was a smaller increase in the poverty population between 1979 and 1987 (7.3 versus 8.8 million). The major results of the analysis are unchanged using the CPI–X1 correction.

Table 25 shows the distribution of children in 1987 by poverty status, under different definitions of income. This table shows, for example, that 86.2 percent of children in two-parent families are not counted poor based on pretransfer income. Of the 13.8 percent poor before any government transfers, 24 percent received transfers and were taken out of poverty, 42 percent received some transfers and yet remained poor, and 34 percent received no transfers and remained poor. Of this latter group that received no transfers and remained poor, 66.5 percent lived in a family in which at least one person worked full-time, full-year.

TABLE 24.—SOURCES OF THE INCREASE IN THE POVERTY POPULATION BETWEEN 1979 AND 1987, BY TYPE OF FAMILY, USING ADJUSTED POVERTY THRESHOLDS [1]

[Thousands of persons]

	Type of family					
	All families with children <18			All members over age 65	Other	Total
	Unmarried head	Married couple	Total			
Increased number of after-transfer poor 1979–1987 due to:						
Average population growth	776	766	1,542	296	602	2,441
Market income changes	25	1,091	1,115	−1,119	−106	−110
Social insurance program changes	328	509	837	−764	476	550
Welfare program changes	1,884	868	2,752	−142	109	2,719
Federal tax changes	−121	54	−67	−0	295	228
Other (demographic)	747	−1214	−467	1,292	673	1,498
Total increase	3,639	2,074	5,713	−437	2,049	7,325

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[1] Rather than the official poverty thresholds which are adjusted yearly for inflation based on the official CPI, these data are based on poverty thresholds deflated from 1987 using an alternative price index, the CPI–X1. Using this alternative price index rather than the official CPI raised 1979 poverty thresholds by just under 3 percent—about $220 for a four-person family.

TABLE 25.—POVERTY AND INCOME TRANSFER RECEIPT AMONG CHILDREN, 1987 [1]

	Not pre-transfer poor [2]	Pretransfer poor [2]			All children
		Not post-transfer poor [2]	Received some trans-fers,[3] post-transfer poor [2]	Received no trans-fers,[3] post-transfer poor [2]	
Two-parent families:					
Percent of 2-parent children	86.2	3.3	5.8	4.7	100.0
Weeks worked by head	47.2	20.9	19.6	37.4	45.0
Weeks worked by spouse	32.5	15.1	9.1	16.8	30.5
Mean transfers [3]	$816	$9,278	$4,973	$223	$1,211
Mean poverty gap [4]	0	0	$4,104	$4,624	$342
Percent receiving welfare transfers [5]	3.5	46.5	78.4	0	7.7
Percent receiving nonwelfare tranfers [6]	16.9	75.2	40.6	0	19.0
Percent with at least 1 full-time, full-year worker [7]	93.6	36.0	28.5	66.5	88.2
Female-headed families:					
Percent of single-mother children	38.4	11.4	42.5	7.7	100.0
Weeks worked by head	46.9	20.4	8.5	25.4	29.0
Mean transfers [3]	$1,259	$8,099	$5,548	$186	$3,407
Mean poverty gap [4]	0	0	$3,584	$5,182	$1,649
Percent receiving welfare transfers [5]	13.4	73.0	93.8	0	46.8
Percent receiving nonwelfare transfers [6]	19.2	48.7	20.0	0	21.1
Percent with at least 1 full-time, full-year worker [7]	79.7	20.0	5.7	26.5	43.4
All children:					
Percent of all children	75.4	5.1	13.8	5.6	100.0
Percent of all pretransfer poor children	0	20.9	56.3	22.8	100.0

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[1] Children living in group quarters or not living with relatives are excluded from this table. Children living in single-parent families headed by males and married people under age 18 who have no children of their own are included in the total for all children.

[2] Poverty status is determined by comparing a family's cash income minus Federal income and payroll taxes plus the market value of food and housing assistance with the relevant poverty threshold. Pretransfer income equals a family's post-tax income plus the value of food and housing assistance minus the cash value of all government transfers.

[3] Transfers considered include Social Security, Railroad Retirement, Unemployment Compensation, workers' compensation, government pensions, veterans' pensions and compensation, food stamps, housing assistance, Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and general assistance. The value of school lunch subsidies is included as income and in the mean value of transfers, but families receiving only shcool lunch transfers were considered not to be getting transfers.

[4] The poverty gap is the dollar amount needed to raise a poor family's post-tax income plus the value of food and housing assistance up to the relevant poverty line.

[5] Welfare transfers considered include food stamps, housing assistance, Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and general assistance.

[6] Nonwelfare transfers considered include Social Security, Railroad Retirement, Unemployment Compensation, workers' compensation, government pensions, and veterans' pensions and compensation.

[7] Full-time, full-year workers are people who worked at least 40 weeks during 1987 and who usually worked at least 35 hours per week.

Source: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

TRENDS IN FAMILY INCOME AND INCOME INEQUALITY [8]

There are several different approaches to measuring trends in family income and income inequality, as shown in table 26. These approaches all track trends in family income by looking at income over time, adjusted for inflation, by income quintiles. Income quintiles are fifths of the income distribution, defined by ordering all relevant family units from that with the lowest income to that with the highest. The bottom quintile is the lowest (poorest) fifth of that order, while the top quintile is the highest (richest) fifth. Quintiles may be defined separately for each family type, in which case the quintile a particular family is in says nothing about its place in the overall income distribution for all families as a group, but does reflect changes in income inequality within that particular family type.

The 3 years, 1973, 1979 and 1987, are used in this study because they represent peak years in the economic cycle. Using only 3 years also simplifies the analysis significantly.

In viewing incomes from different years, the dollar amounts must be adjusted for inflation in order to compare actual buying power. Adjustment for inflation is generally made using CPI, an index of the cost of a market basket of goods and services representing the average consumption of the urban population. To the extent that the CPI accurately measures changes in living costs, inflating poverty thresholds or past-year incomes using the CPI is appropriate.

Unfortunately, through 1982, the CPI measured housing costs in a way that led to excessive growth in the index during the late 1970s when interest rates increased rapidly. In particular, the housing component of the CPI gave inordinate weight to the costs of newly purchased houses, including both the purchase price and mortgage interest rates, as well as property taxes, insurance, and maintenance costs. This approach picked up both the flow of services and the investment aspects of homeownership, but only the former is appropriate in an index measuring consumption costs. Because of the large weight assigned to homeownership costs, many analysts think that the CPI overstated the true rise in living costs in the late 1970s. Using it to adjust poverty thresholds or incomes for inflation has consequently made families appear to be worse off than they really are.

In 1983, the Bureau of Labor Statistics began using a revised method to calculate the CPI, known in experimental analyses and referred to as CPI-X1. This revised method uses estimates of the cost of renting equivalent housing to measure homeownership costs. This "rental equivalence" approach incorporates only the consumption aspects of owning a home, not the investment aspects, and consequently is less affected by changes in housing prices and mortgage rates. In addition, the relative importance of homeownership costs in the CPI-X1 is only about half of that in the CPI. Estimates have been made of the values this revised index would have taken, had it been in place since 1967; these values provide an alternative price index for adjusting both poverty thresholds and incomes for inflation. Between 1967 and 1985, the CPI rose roughly 10 percent faster than the CPI-X1. Because of the greater accuracy of the CPI-X1, this study uses it to adjust both incomes and poverty thresholds for the effects of inflation.

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[8] This subsection borrows heavily from "Trends in Family Income: 1970-1986," Congressional Budget Office, February 1988. While the methodology is similar, it updates the data through 1987 and makes further methodological improvements.

Results

Inflation adjustment only.—Part A of table 26 shows changes in mean family cash incomes in constant 1987 dollars, from 1973 to 1987. This is the common method of analysis of changes in income distribution. However, unlike the Census Bureau analysis, these numbers include families and single individuals. In other words, the term "All Families" encompasses the total population; a single individual is a family of one. As the table shows, average family cash income among the lowest quintile of families, the poorest 20 percent, decreased from $5,507 to $5,107 between 1973 and 1987, after adjusting for inflation. This represents a decrease of 7.3 percent. Over the same time period, average family cash income among the highest quintile increased from $60,299 to $67,416, an increase of 10.7 percent. The average income for all families over this time period increased 6 percent.

Another way of tracking income trends over time is to look at the changes in income distribution by calculating the percentage share of income for each quintile. Using the numbers in part A of table 26, the shares of mean family cash income are presented in part A of table 27. In 1973, the poorest 20 percent of families had 4.0 percent of all family cash income; the richest 20 percent had 43.7 percent of all family cash income. The share for the lowest quintile rose from 4.0 percent in 1973 to 4.5 percent in 1979, then fell to 3.9 percent in 1987. The share for the highest quintile rose from 43.7 to 43.9 percent, from 1973 to 1987.

Adjusting for family size.—The common approach of using mean family cash incomes has several major shortcomings, such that the data presents a misleading picture. First, because of changes in family size and composition, average family cash income is an inaccurate indicator of changes in family well-being over time. An income measure that accounts for the fact that different size households have varying income needs would be better. The common method assumes that a family of one with $15,000 of income is equivalent to a family of four with $15,000 of income. Obviously, this is not true. A family of four requires more income (although not four times as much) to attain the same standard of living as a single person.

The alternative approach used in this study uses an equivalence scale to make incomes comparable for families of different sizes. The purpose of such an equivalence scale is to take account directly of the differing needs of families of different sizes; while needs rise with family size, the increase in needs caused by an additional member is less for larger families than for smaller ones. Although analysts disagree over which equivalence scale should be used for this purpose, one readily available candidate is that scale implicit in the official federal poverty thresholds. This is the scale adopted throughout this study. This scale assumes, for example, that a family of four needs about twice as much income as a single person to maintain an equivalent standard of living (see Table 28). Although the scale implicit in poverty thresholds may not be an accurate indicator of the disparate needs of families of different sizes, it probably yields a better assessment of relative well-being than either unadjusted or per-capita measures.

The term "adjusted family income" (or AFI) used throughout the rest of this subsection is income divided by the poverty threshold for the appropriate family size. An analogous term used in this section is "income as a fraction of poverty."

This measure is illustrated in part B of tables 26 and 27. Families are divided into quintiles on the basis of this measure. As part B of table 26 shows, for the 20 percent of families in 1973 with the lowest AFIs, the average adjusted family income equalled 84 percent of poverty. In 1987, average income among this lowest quintile had declined to 79 percent of poverty, a 6.1 percent decrease in real, inflation-adjusted terms. The highest quintile, on the other hand, realized a 20.7 percent gain in adjusted family income over this period, from 7.20 times poverty to 8.69 times poverty.

Part B of table 27 shows the shares of adjusted family income with these corrections. In 1973, the poorest 20 percent of families had a 5.0 percent share of all adjusted family income. From 1973, their share fell 18 percent to 4.1 percent of income in 1987. Over the same time period, the share of the richest 20 percent rose 4.7 percent, from 42.9 to 44.9 percent.

Weighting by individuals.—Although the above data on the income distribution of families by AFI is useful, an even better measure of income inequality is to look at the income distribution of individuals. Through weighting by individuals, large families appropriately receive different treatment than small families. When calculating the average AFI weighted by families, each family in a quintile carries equal weight. When calculating average AFI weighted by persons, however, a family of four carries four times the weight of a family of one. Each person, rather than each family, carries equal weight. Thus, weighting by persons gives a more accurate picture of the income distribution of the population. It does not change the income value for each family, but gives each person equal weight in calculating the averages in each quintile. It does change the composition of the quintile. There are exactly 20 percent of the population in each quintile; not 20 percent of families. This third method is presented in part C of tables 26 and 27.

Part C of table 26 shows that for the 20 percent of persons with the lowest incomes in 1973, average family income equalled 93 percent of poverty; by 1987 average family income for persons in this quintile had fallen to 83 percent of poverty, a 10.8 percent decrease in real, inflation adjusted terms. On average, the 20 percent of persons in the highest quintile in 1973 had incomes equal to 6.86 times poverty; by 1987 average family income for persons in this quintile had increased 24.1 percent to 8.51 times poverty. The percentage changes in each quintile are compared in chart 4.

Part C of table 27 shows that in 1973 the share of adjusted family income for the poorest 20 percent of persons was 5.6 percent; the share for the richest 20 percent was 41.4 percent. By 1987, the share for the lowest quintile of persons declined 23.2 percent to 4.3 percent; the share for the highest quintile rose 6.0 percent to 43.9 percent.

TABLE 26.—FAMILY INCOME BY INCOME QUINTILE AND CHANGE OVER TIME, 1973, 1979, 1987, FOR ALL FAMILIES

Quintile	1973	1979	1987	Percent change	
				1973–87	1979–87
A. Mean cash family income in 1987 dollars:					
Lowest	$5,507	$5,439	$5,107	−7.3	−6.1
Second	14,007	13,889	13,584	−3.0	−2.2
Middle	23,541	23,240	23,455	−.4	.9
Fourth	34,479	35,101	36,514	5.9	4.0
Highest	60,299	61,917	68,775	11.8	11.1
Average	27,568	27,917	29,487	6.0	5.6
B. Adjusted family income,[1] weighted by families:					
Lowest	0.84	0.85	0.79	−6.1	−7.1
Second	1.87	1.97	1.97	5.5	.0
Middle	2.83	3.03	3.18	12.3	5.0
Fourth	4.04	4.34	4.71	16.6	8.5
Highest	7.20	7.58	8.69	20.7	14.6
Average	3.36	3.55	3.87	15.2	9.0
C. Adjusted family income,[1] weighted by persons:					
Lowest	.93	.92	.83	−10.8	−9.8
Second	1.97	2.09	2.08	5.6	−.5
Middle	2.85	3.09	3.25	14.0	5.2
Fourth	3.94	4.31	4.71	19.5	9.3
Highest	6.86	7.36	8.51	24.1	15.6
Average	3.31	3.55	3.88	17.2	9.3

[1] Income as a fraction of poverty.

TABLE 27.—SHARES OF FAMILY INCOME BY INCOME QUINTILE AND CHANGE OVER TIME, 1973, 1979, 1987, FOR ALL FAMILIES

Quintile	1973	1979	1987
A. Shares of mean cash family income:			
Lowest	4.0	4.5	3.9
Second	10.2	11.2	10.2
Middle	17.1	17.9	17.1
Fourth	25.0	25.2	24.9
Highest	43.7	41.2	43.9
B. Shares of adjusted family income,[1] weighted by families:			
Lowest	5.0	4.8	4.1
Second	11.1	11.1	10.2
Middle	16.9	17.1	16.4
Fourth	24.1	24.4	24.4
Highest	42.9	42.7	44.9
C. Shares of adjusted family income,[1] weighted by persons:			
Lowest	5.6	5.2	4.3
Second	11.9	11.7	10.7
Middle	17.2	17.4	16.8
Fourth	23.8	24.3	24.3
Highest	41.4	41.5	43.9

[1] Income as a fraction of poverty.

TABLE 28.—POVERTY THRESHOLDS AND EQUIVALENCE VALUES FOR DIFFERENT FAMILY SIZES, 1987

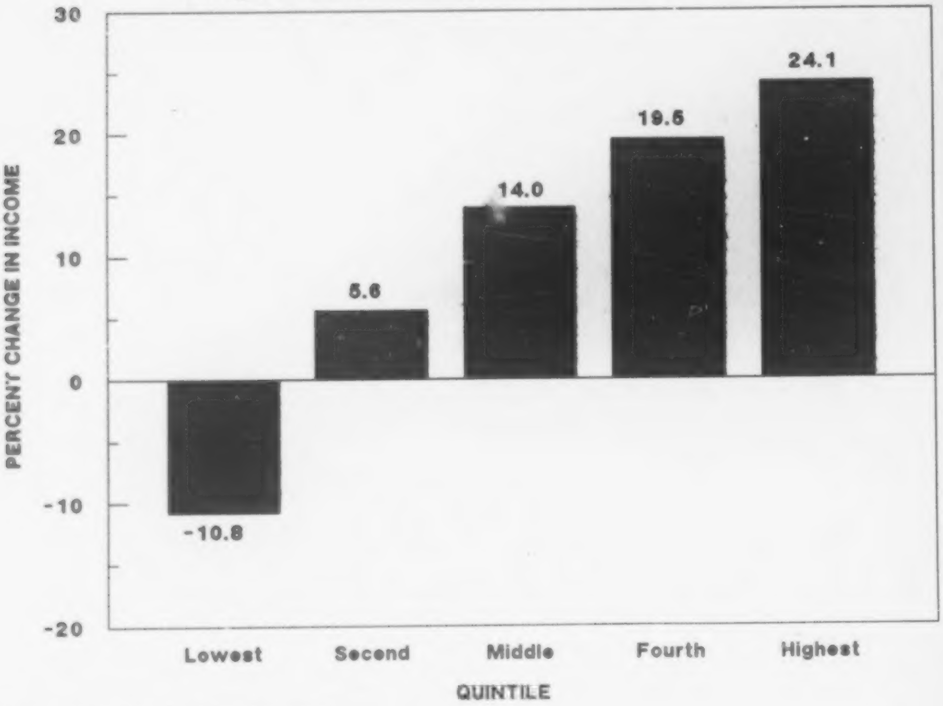
Family size (persons)	Adjusted poverty threshold [1]	Official poverty threshold	Equivalence value (one person=1)
1	$5,374	$5,909	1.00
1 [2]	4,954	5,447	1.00
2	6,949	7,641	1.28
2 [2]	6,250	6,872	1.28
3	8,236	9,056	1.57
4	10,560	11,611	2.01
5	12,494	13,737	2.38
6	14,105	15,509	2.69
7	16,052	17,649	3.05
8	17,749	19,515	3.38
9+	21,014	23,105	4.04

[1] Thresholds adjusted for inflation using CPI–X1.

[2] Individual or head of household 65 or over.

CHART 4

Changes in Family Income by Income Quintile, 1973 to 1987



Note: Adjusted Family Income, weighted by persons.

In summary, using the standard measure of income distribution, the lowest quintile of families suffered a 7-percent decline in income between 1973 and 1987, while the highest quintile realized a 12-percent increase. By contrast, using the preferred income distribution measure, the lowest quintile of persons suffered an 11-percent decline in income between 1973 and 1987, while the richest quintile realized a 24-percent increase. In fact, the richest 20 percent of the population were in families that experienced an increase in their AFI equal to 1.65 times poverty, almost twice the absolute level of the average AFI in the bottom quintile. Chart 4 illustrates the preferred measure of income distribution (the percentage change in AFI, weighted by persons).

A similar analysis showing changes in AFI, weighted by persons, can be performed for each type of family. Table 29 shows AFI, weighted by persons, for 10 major family types, which are described below.

All Families: Includes all families and unrelated individuals (i.e. the total U.S. population); combines all family types listed below.

All Families with Children: Includes families composed of two or more related people living together, at least one of whom is under age 18 and not married.

Married Couples with Children: Includes families composed of a married couple living only with their own or related children, at least one of whom is under age 18.

Single Mothers with Children: Includes families composed of unmarried, divorced, separated, or widowed mothers living only with their own or related children, at least one of whom is under age.

Nonelderly Childless Units: Includes all families and individuals in which neither the head of the household or the spouse of the head is age 65 or over, and there are no children under age 18.

Nonelderly Childless Families: Includes families composed of two or more related people living together, in which neither the family head nor the spouse of the head is age 65 or over and there are no children under 18.

Nonelderly Unrelated Individuals: Includes people over age 17 and under age 65 who are not living with relatives.

Elderly Childless Units: Includes all families and individuals in which either the head of household or the spouse of the head is at least age 65, and there are no children under age 18.

Elderly Childless Families: Includes families composed of two or more related people living together, in which either the family head or the spouse of the head is at least age 65, and there are no children under age 18.

Elderly Unrelated Individuals: Includes people age 65 and over who are not living with relatives.

TABLE 29.—AVERAGE FAMILY CASH INCOME AS A FRACTION OF POVERTY (ADJUSTED FAMILY INCOME) BY FAMILY TYPE, QUINTILES BASED ON ADJUSTED FAMILY CASH INCOME, WEIGHTED BY PERSONS, 1973, 1979, AND 1987

Family type and quintile	1973	1979	1987	Percent change	
				1973–87	1979–87
All families:					
Lowest	0.93	0.92	0.83	−10.8	−9.8
Second	1.97	2.09	2.08	5.6	−.5
Middle	2.85	3.09	3.25	14.0	5.2
Fourth	3.94	4.31	4.71	19.5	9.3
Highest	6.86	7.36	8.51	24.1	15.6
Average	3.31	3.55	3.88	17.2	9.3
All families with children:					
Lowest	.91	.85	.71	−22.0	−16.5
Second	1.91	1.96	1.86	−2.6	−5.1
Middle	2.67	2.85	2.91	9.0	2.1
Fourth	3.55	3.84	4.11	15.8	7.0
Highest	5.72	6.11	7.13	24.7	16.7
Average	2.95	3.12	3.34	13.2	7.1
Married couples with children:					
Lowest	1.19	1.20	1.11	−6.7	−7.5
Second	2.15	2.30	2.32	7.9	0.9
Middle	2.86	3.13	3.30	15.4	5.4
Fourth	3.72	4.11	4.47	20.2	8.8

TABLE 29.—AVERAGE FAMILY CASH INCOME AS A FRACTION OF POVERTY (ADJUSTED FAMILY INCOME) BY FAMILY TYPE, QUINTILES BASED ON ADJUSTED FAMILY CASH INCOME, WEIGHTED BY PERSONS, 1973, 1979, AND 1987—Continued

Family type and quintile	1973	1979	1987	Percent change	
				1973–87	1979–87
Highest	5.93	6.38	7.60	28.2	19.1
Average	3.17	3.42	3.76	18.6	9.9
Single mothers with children:					
Lowest	.33	.33	.26	−21.2	−21.2
Second	.72	.75	.61	−15.3	−18.7
Middle	1.05	1.22	1.07	1.9	−12.3
Fourth	1.67	2.01	1.95	16.8	−3.0
Highest	3.32	3.67	4.03	21.4	9.8
Average	1.42	1.60	1.58	11.3	−1.3
Nonelderly childless units:					
Lowest	1.21	1.23	1.11	−8.3	−9.8
Second	2.79	2.88	2.83	1.4	−1.7
Middle	4.04	4.22	4.36	7.9	3.3
Fourth	5.42	5.70	6.11	12.7	7.2
Highest	8.83	9.23	10.33	17.0	11.9
Average	4.46	4.65	4.95	11.0	6.5
Nonelderly childless families:					
Lowest	1.73	1.84	1.70	−1.7	−7.6
Second	3.28	3.56	3.55	8.2	−.3
Middle	4.48	4.85	5.05	12.7	4.1
Fourth	5.82	6.26	6.75	16.0	7.8
Highest	9.23	9.84	11.03	19.5	12.1
Average	4.91	5.27	5.61	14.3	6.5
Nonelderly unrelated individuals:					
Lowest	.50	.60	.54	8.0	−10.0
Second	1.47	1.69	1.68	14.3	−.6
Middle	2.49	2.73	2.87	15.3	5.1
Fourth	3.74	3.93	4.35	16.3	10.7
Highest	6.78	6.88	8.04	18.6	16.9
Average	3.00	3.17	3.50	16.7	10.4
Elderly childless units:					
Lowest	.82	.90	1.01	23.2	12.2
Second	1.44	1.61	1.85	28.5	14.9
Middle	2.11	2.42	2.79	32.2	15.3
Fourth	3.22	3.60	4.14	28.6	15.0
Highest	6.95	7.28	8.32	19.7	14.3
Average	2.91	3.16	3.62	24.4	14.6
Elderly childless families:					
Lowest	1.03	1.13	1.31	27.2	15.9
Second	1.76	2.00	2.31	31.3	15.5
Middle	2.51	2.85	3.29	31.1	15.4
Fourth	3.71	4.08	4.68	26.1	14.7

TABLE 29.—AVERAGE FAMILY CASH INCOME AS A FRACTION OF POVERTY (ADJUSTED FAMILY INCOME) BY FAMILY TYPE, QUINTILES BASED ON ADJUSTED FAMILY CASH INCOME, WEIGHTED BY PERSONS, 1973, 1979, AND 1987—Continued

Family type and quintile	1973	1979	1987	Percent change	
				1973–87	1979–87
Highest	7.58	7.83	9.02	19.0	15.2
Average	3.32	3.58	4.12	24.1	15.1
Elderly unrelated individuals:					
Lowest	.57	.68	.76	33.3	11.8
Second	.99	1.09	1.21	22.2	11.0
Middle	1.31	1.46	1.67	27.5	14.4
Fourth	1.85	2.19	2.54	37.3	16.0
Highest	4.35	5.15	5.79	33.1	12.4
Average	1.81	2.12	2.39	32.0	12.7

For each of these major family types, population quintiles are determined on the basis of AFI, weighted by persons. This table is designed to illustrate the changes in income inequality within each family type. For example, individuals in the middle quintile of single mothers with children, when compared to all individuals in the entire population, may fall within the lowest quintile.

As shown in table 29, the bottom 20 percent of individuals in families with children had real income declines of 22 percent. The average person in this quintile fell from 91 percent of poverty to 71 percent of poverty from 1973 to 1987. The richest twenty percent of individuals living in families with children realized a 24.7 percent gain in real income, while the average person realized a real income gain of 13.2 percent.

The average person in the lowest quintile of married couples with children had a 6.7 percent decline in AFI from 1973 to 1987 compared to a 21.2 percent decline for the average person in the lowest quintile of single mothers with children. In contrast, individuals in elderly childless units experienced real income gains of over 19 percent from 1973 to 1987, regardless of quintile. Furthermore, if one believes the family equivalence scale used in this study, the average elderly person in the bottom quintile of elderly childless units is substantially better off than the average person in the bottom quintile of families with children (an average AFI of 101 percent of poverty in 1987 for the elderly, compared to 71 percent of poverty in 1987 for all families with children). The reverse was true in 1973.

As shown in table 29, for single mothers with children, all but the highest quintile showed a decrease in income from 1979 to 1987. All quintiles of the elderly, on the other hand, show an increase in income from 1979 to 1987. Chart 5 shows the trends in income from 1973 to 1987 among the poorest 20 percent of the population for the four major family types. Table 30 shows the percentage share of income received by each quintiles according to the family types illustrated in table 29.

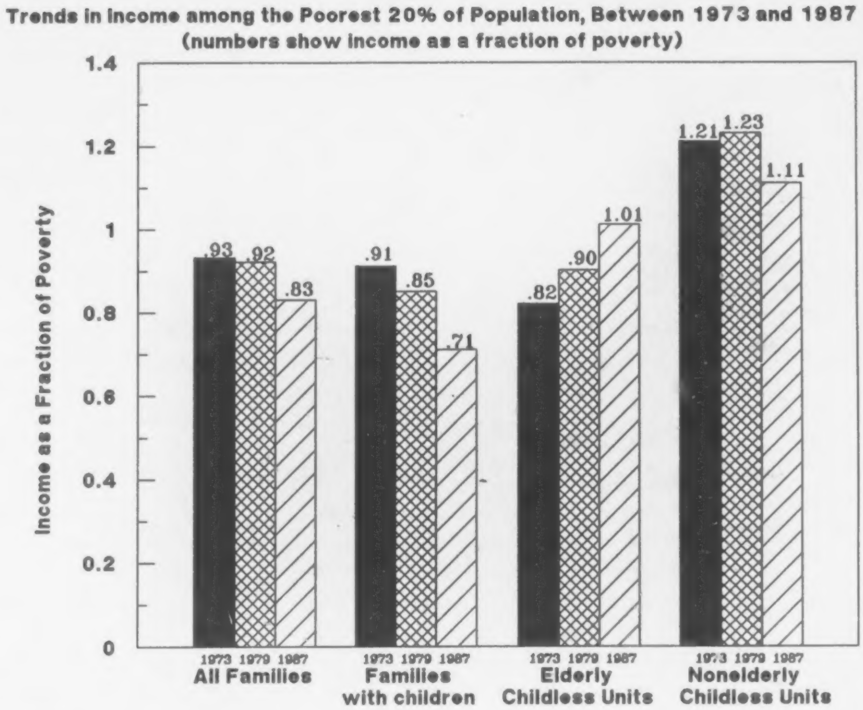
Table 31 shows the income distribution for all families types using the simpler measure of income in constant 1987 dollars. The percentage changes in income will be similar for a given family type in tables 29 and 31, except for family types that combine a variety of demographic groups that have experienced substantial family size changes. For example, there is little difference between the percent changes in income for elderly unrelated individuals shown in tables 29 and 31. This is because family size and composition has not changed; except for the fact that poverty thresholds in 1973 and 1979 are adjusted for farm-nonfarm residence and sex of head, adjusted family income is an equivalent measure to income in constant dollars for this family type.

The family type of single mothers with children also shows similar data in the two tables. In the lowest quintile, family income declined 24.9 percent from 1973 to 1987 in table 31 and 21.2 percent in table 29. The reason for this slight discrepancy is that average family size declined over this time period. As one aggregates family types, the percentage change in income (as measured by AFI or a dollar amount) between years will show greater variation. Table 32 shows the percentage share of income for the income measure and family types illustrated in table 31.

Table 33 presents the number of families and average family size by income quintile and family type where quintiles are defined on the basis of AFI, weighted by persons. Table 34 presents average family size for the same quintiles and family types but where quintiles are defined on the basis of family income in dollars. The average family size has fallen from 2.84 persons per family in 1973 to 2.44 persons per family in 1987. Note in particular that the average family size in the bottom quintile for all families is considerably higher in table 33 than in table 34. This is because in the AFI measure of income, families with children constitute a greater proportion of individuals in the bottom quintile. In the conventional measure of family cash income in dollars, the bottom quintile contains a much greater proportion of elderly units. The fact that elderly incomes were rising over time in all quintiles and that incomes among the poorest families with children were falling explains the difference in percentage declines between different time periods, between the income measured in constant dollars and income measured as AFI, weighted by persons.

Defining quintiles using the AFI measure of income, weighted by persons, yields a similar number of average persons per family across income quintiles for all families, as shown in table 33. The average number of persons per family increases sharply across quintiles when defining quintiles on the basis of family cash income as shown in table 34.

CHART 5



Note: Adjusted Family Income, weighted by persons.

TABLE 30.—SHARES OF ADJUSTED FAMILY INCOME BY FAMILY TYPE, QUINTILES BASED ON ADJUSTED FAMILY CASH INCOME WEIGHTED BY PERSONS, 1973, 1979, AND 1987

Family type and quintile	1973	1979	1987
All families:			
Lowest	5.6	5.2	4.3
Second	11.9	11.7	10.7
Middle	17.2	17.4	16.8
Fourth	23.8	24.3	24.3
Highest	41.4	41.5	43.9
All families with children:			
Lowest	6.2	5.5	4.2
Second	12.9	12.6	11.1
Middle	18.1	18.2	17.4
Fourth	24.0	24.6	24.6
Highest	38.8	39.1	42.7
Married couples with children:			
Lowest	7.5	7.0	5.9
Second	13.6	13.5	12.4
Middle	18.1	18.3	17.6
Fourth	23.5	24.0	23.8
Highest	37.4	37.3	40.4
Single mothers with children:			
Lowest	4.7	4.1	3.3
Second	10.2	9.4	7.7
Middle	14.7	15.3	13.5
Fourth	23.6	25.2	24.6
Highest	46.8	46.0	50.9
Nonelderly childless units:			
Lowest	5.4	5.3	4.5
Second	12.5	12.4	11.5
Middle	18.1	18.1	17.6
Fourth	24.3	24.5	24.7
Highest	39.6	39.7	41.7
Nonelderly childless families:			
Lowest	7.0	7.0	6.0
Second	13.4	13.5	12.6
Middle	18.2	18.4	18.0
Fourth	23.7	23.7	24.0
Highest	37.6	37.4	39.3
Nonelderly unrelated individuals:			
Lowest	3.4	3.8	3.1
Second	9.8	10.7	9.6
Middle	16.6	17.2	16.4
Fourth	25.0	24.8	24.9
Highest	45.3	43.5	46.0
Elderly childless units:			
Lowest	5.6	5.7	5.6
Second	9.9	10.2	10.2
Middle	14.5	15.3	15.4
Fourth	22.1	22.8	22.9
Highest	47.8	46.1	45.9

TABLE 30.—SHARES OF ADJUSTED FAMILY INCOME BY FAMILY TYPE, QUINTILES BASED ON ADJUSTED FAMILY CASH INCOME WEIGHTED BY PERSONS, 1973, 1979, AND 1987—Continued

Family type and quintile	1973	1979	1987
Elderly childless families:			
Lowest	6.2	6.3	6.3
Second	10.6	11.2	11.2
Middle	15.2	15.9	16.0
Fourth	22.3	22.8	22.7
Highest	45.7	43.8	43.8
Elderly unrelated individuals:			
Lowest	6.3	6.5	6.3
Second	11.0	10.3	10.1
Middle	14.4	13.8	13.9
Fourth	20.4	20.7	21.2
Highest	47.9	48.7	48.4

TABLE 31.—AVERAGE FAMILY CASH INCOME IN 1987 DOLLARS BY FAMILY TYPE, QUINTILES BASED ON FAMILY INCOME MEASURED IN DOLLARS, WEIGHTED BY FAMILIES, 1973, 1979, AND 1987

Family type and quintile	1973	1979	1987	Percent change	
				1973–87	1979–87
All families:					
Lowest	5,507	5,439	5,107	−7.3	−6.1
Second	14,007	13,889	13,584	−3.0	−2.2
Middle	23,541	23,240	23,455	−.4	.9
Fourth	34,479	35,101	36,514	5.9	4.0
Highest	60,299	61,917	68,775	14.1	11.1
Average	27,568	27,917	29,487	7.0	5.6
All families with children:					
Lowest	9,567	8,502	6,733	−29.6	−20.8
Second	21,059	20,296	18,672	−11.3	−8.0
Middle	29,635	30,235	30,256	2.1	.1
Fourth	39,458	40,782	42,912	8.8	5.2
Highest	63,985	66,219	74,264	16.1	12.1
Average	32,741	33,206	34,567	5.6	4.1
Married couples with children:					
Lowest	14,038	13,746	12,796	−8.8	−6.9
Second	24,687	25,676	25,842	4.7	.6
Middle	32,268	34,205	35,999	11.6	5.2
Fourth	41,599	44,118	47,787	14.9	8.3
Highest	66,186	69,464	79,429	20.0	14.3
Average	35,756	37,442	40,371	12.9	7.8

TABLE 31.—AVERAGE FAMILY CASH INCOME IN 1987 DOLLARS BY FAMILY TYPE, QUINTILES BASED ON FAMILY INCOME MEASURED IN DOLLARS, WEIGHTED BY FAMILIES, 1973, 1979, AND 1987—Continued

Family type and quintile	1973	1979	1987	Percent change	
				1973–87	1979–87
Single mothers with children:					
Lowest	3,184	3,029	2,392	−24.9	−21.0
Second	7,206	7,370	5,381	−19.1	−20.9
Middle	10,832	11,920	10,185	−6.0	−14.6
Fourth	16,234	18,062	17,446	7.5	−3.4
Highest	30,375	32,409	35,269	16.1	8.8
Average	13,566	14,558	14,225	4.9	−2.3
Nonelderly childless units:					
Lowest	5,278	5,321	4,862	−7.9	−8.6
Second	14,434	14,346	14,097	−2.3	−1.7
Middle	23,226	23,047	23,719	2.1	2.9
Fourth	34,228	34,681	36,557	6.8	5.4
Highest	61,001	62,744	69,743	14.3	11.2
Average	27,632	28,028	29,796	7.8	6.3
Nonelderly childless families:					
Lowest	11,852	12,597	11,884	.3	−5.7
Second	23,035	25,203	25,519	10.8	1.3
Middle	32,034	35,028	36,938	15.3	5.5
Fourth	42,886	46,334	50,777	18.4	9.6
Highest	69,843	75,344	85,664	22.7	13.7
Average	35,930	38,901	42,156	17.3	8.4
Nonelderly unrelated individuals:					
Lowest	2,678	3,180	2,915	8.8	−8.3
Second	7,832	9,036	9,001	14.9	−.4
Middle	13,291	14,578	15,420	16.0	5.8
Fourth	20,085	21,172	23,374	16.4	10.4
Highest	36,849	37,401	43,164	17.1	15.4
Average	16,146	17,074	18,775	16.3	10.0
Elderly childless units:					
Lowest	3,769	4,203	4,691	24.5	11.6
Second	6,865	7,592	8,706	26.8	14.7
Middle	10,565	12,092	14,185	34.3	17.3
Fourth	16,879	19,241	22,532	33.5	17.1
Highest	41,138	43,175	49,560	20.5	14.8
Average	15,843	17,261	19,935	25.8	15.5
Elderly childless families:					
Lowest	6,435	7,136	8,360	29.9	17.1
Second	10,971	12,560	14,852	35.4	18.2
Middle	15,628	17,922	21,182	35.5	18.2
Fourth	23,737	26,216	30,617	29.0	16.8
Highest	51,006	52,600	60,940	19.5	15.9
Average	21,555	23,287	27,190	26.1	16.8

TABLE 31.—AVERAGE FAMILY CASH INCOME IN 1987 DOLLARS BY FAMILY TYPE, QUINTILES BASED ON FAMILY INCOME MEASURED IN DOLLARS, WEIGHTED BY FAMILIES, 1973, 1979, AND 1987—Continued

Family type and quintile	1973	1979	1987	Percent change	
				1973–87	1979–87
Elderly unrelated individuals:					
Lowest	2,824	3,373	3,754	32.9	11.3
Second	4,901	5,383	5,971	21.8	10.9
Middle	6,464	7,226	8,248	27.6	14.1
Fourth	9,128	10,781	12,578	37.8	16.7
Highest	21,467	25,394	28,686	33.6	13.0
Average	8,956	10,432	11,847	32.3	13.6

TABLE 32.—SHARES OF FAMILY CASH INCOME BY FAMILY TYPE, QUINTILES BASED ON FAMILY CASH INCOME IN DOLLARS, WEIGHTED BY FAMILIES, 1973, 1979, AND 1987

Family type and quintile	1973	1979	1987
All families:			
Lowest	4.0	4.5	3.9
Second	10.2	11.2	10.2
Middle	17.1	17.9	17.1
Fourth	25.0	25.2	24.9
Highest	43.7	41.2	43.9
All families with children:			
Lowest	5.8	5.5	4.1
Second	12.9	13.0	11.4
Middle	18.1	18.8	18.0
Fourth	24.1	24.6	24.9
Highest	39.1	38.2	41.6
Married couples with children:			
Lowest	7.9	7.8	6.7
Second	13.8	14.3	13.3
Middle	18.0	18.7	18.1
Fourth	23.3	23.6	23.7
Highest	37.0	35.5	38.3
Single mothers with children:			
Lowest	4.7	4.6	3.6
Second	10.6	10.5	8.5
Middle	16.0	16.8	14.5
Fourth	23.9	25.3	24.9
Highest	44.8	42.9	48.5
Nonelderly childless units:			
Lowest	3.8	3.9	3.4
Second	10.4	10.6	9.8
Middle	16.8	17.0	16.5
Fourth	24.8	25.1	25.0
Highest	44.2	43.4	45.3

TABLE 32.—SHARES OF FAMILY CASH INCOME BY FAMILY TYPE, QUINTILES BASED ON FAMILY CASH INCOME IN DOLLARS, WEIGHTED BY FAMILIES, 1973, 1979, AND 1987—Continued

Family type and quintile	1973	1979	1987
Nonelderly childless families:			
Lowest	6.6	6.6	5.8
Second	12.8	13.3	12.4
Middle	17.8	18.5	18.0
Fourth	23.9	24.0	24.5
Highest	38.9	37.7	39.4
Nonelderly unrelated individuals:			
Lowest	3.3	3.7	3.1
Second	9.7	10.6	9.6
Middle	16.5	17.1	16.4
Fourth	24.9	24.8	24.9
Highest	45.6	43.8	46.0
Elderly childless units:			
Lowest	4.8	5.0	4.8
Second	8.7	9.0	8.9
Middle	13.3	14.3	14.4
Fourth	21.3	22.5	22.9
Highest	51.9	49.3	49.0
Elderly childless families:			
Lowest	6.0	6.2	6.3
Second	10.2	10.9	11.0
Middle	14.5	15.6	15.8
Fourth	22.0	22.9	22.8
Highest	47.3	44.4	44.2
Elderly unrelated individuals:			
Lowest	6.3	6.5	6.3
Second	10.9	10.3	10.1
Middle	14.4	13.8	13.9
Fourth	20.4	20.7	21.2
Highest	47.9	48.7	48.4

TABLE 33.—NUMBER OF FAMILIES AND AVERAGE FAMILY SIZE BY INCOME QUINTILE AND FAMILY TYPE, QUINTILES DEFINED ON THE BASIS OF ADJUSTED FAMILY INCOME WEIGHTED BY PERSONS, 1973, 1979, and 1987 (IN PERSONS PER FAMILY)

Family type and year	Income quintile					All quintiles	Number of families (thousands)
	1st	2nd	3rd	4nd	5th		
All families:							
1973	2.53	3.02	3.18	2.97	2.61	2.84	73,165
1979	2.31	2.66	2.79	2.73	2.50	2.59	84,230
1987	2.26	2.45	2.60	2.52	2.39	2.44	98,404
All families with children:							
1973	4.55	4.55	4.40	4.25	4.02	4.35	31,100
1979	4.15	4.22	4.18	4.02	3.89	4.09	32,166
1987	3.91	4.03	4.04	3.91	3.73	3.92	34,403
Married couples with children:							
1973	5.03	4.63	4.39	4.21	3.99	4.42	24,798
1979	4.68	4.44	4.22	4.03	3.89	4.23	24,166
1987	4.56	4.29	4.14	3.92	3.72	4.11	24,504
Single mothers with children:							
1973	3.86	3.96	3.64	3.25	2.97	3.50	4,125
1979	3.57	3.55	3.36	2.99	2.88	3.24	5,650
1987	3.41	3.36	3.07	2.90	2.77	3.08	6,930
Nonelderly childless units:							
1973	1.37	1.70	1.84	2.03	2.09	1.76	28,182
1979	1.30	1.56	1.75	1.95	2.07	1.68	35,731
1987	1.29	1.56	1.71	1.91	2.00	1.65	44,271
Nonelderly childless families:							
1973	2.23	2.27	2.37	2.37	2.34	2.32	16,362
1979	2.25	2.35	2.38	2.40	2.38	2.35	17,932
1987	2.29	2.38	2.42	2.47	2.39	2.39	20,867
Nonelderly unrelated individuals:							
1973	1.00	1.00	1.00	1.00	1.00	1.00	11,820
1979	1.00	1.00	1.00	1.00	1.00	1.00	17,800
1987	1.00	1.00	1.00	1.00	1.00	1.00	23,404
Elderly childless units:							
1973	1.30	1.51	1.70	1.91	2.01	1.64	13,883
1979	1.27	1.49	1.71	1.87	1.96	1.62	16,333
1987	1.26	1.54	1.71	1.86	1.92	1.62	19,730
Elderly childless families:							
1973	2.12	2.12	2.15	2.23	2.26	2.17	7,589
1979	2.11	2.11	2.13	2.23	2.23	2.16	8,677
1987	2.14	2.15	2.16	2.21	2.21	2.17	10,400
Elderly unrelated individuals:							
1973	1.00	1.00	1.00	1.00	1.00	1.00	6,294
1979	1.00	1.00	1.00	1.00	1.00	1.00	7,656
1987	1.00	1.00	1.00	1.00	1.00	1.00	9,330

Source: Congressional Budget Office tabulations of data from the March Current Population Survey, 1974, 1980, and 1987.

TABLE 34.—AVERAGE FAMILY SIZE BY INCOME QUINTILE AND FAMILY TYPE, QUINTILES DEFINED ON THE BASIS OF FAMILY INCOME IN DOLLARS, 1973, 1979, AND 1987 (IN PERSONS PER FAMILY)

Family type and year	Income quintile					All quintiles
	1st	2d	3d	4th	5th	
All families:						
1973	1.73	2.43	2.96	3.38	3.69	2.84
1979	1.69	2.14	2.57	3.07	3.47	2.59
1987	1.74	2.04	2.38	2.83	3.21	2.44
All families with children:						
1973	3.93	4.21	4.34	4.49	4.76	4.35
1979	3.67	3.93	4.10	4.22	4.53	4.09
1987	3.55	3.79	3.96	4.09	4.21	3.92
Married couples with children:						
1973	4.29	4.30	4.36	4.48	4.70	4.42
1979	4.20	4.13	4.14	4.21	4.49	4.23
1987	4.17	4.09	4.05	4.12	4.11	4.11
Single mothers with children:						
1973	3.16	3.44	3.78	3.54	3.56	3.50
1979	3.04	3.35	3.35	3.12	3.37	3.24
1987	2.98	3.22	3.21	2.89	3.12	3.08
Nonelderly childless units:						
1973	1.22	1.46	1.71	1.99	2.43	1.76
1979	1.17	1.32	1.55	1.91	2.42	1.68
1987	1.18	1.33	1.53	1.85	2.39	1.65
Nonelderly childless families:						
1973	2.13	2.18	2.24	2.37	2.66	2.32
1979	2.15	2.21	2.27	2.40	2.71	2.35
1987	2.18	2.25	2.31	2.45	2.75	2.39
Nonelderly unrelated individuals:						
1973	1.00	1.00	1.00	1.00	1.00	1.00
1979	1.00	1.00	1.00	1.00	1.00	1.00
1987	1.00	1.00	1.00	1.00	1.00	1.00
Elderly childless units:						
1973	1.15	1.35	1.65	1.88	2.17	1.64
1979	1.14	1.32	1.63	1.85	2.14	1.62
1987	1.13	1.35	1.64	1.85	2.11	1.62
Elderly childless families:						
1973	2.05	2.08	2.12	2.20	2.41	2.17
1979	2.05	2.08	2.12	2.17	2.40	2.16
1987	2.06	2.10	2.14	2.19	2.36	2.17
Elderly unrelated individuals:						
1973	1.00	1.00	1.00	1.00	1.00	1.00
1979	1.00	1.00	1.00	1.00	1.00	1.00
1987	1.00	1.00	1.00	1.00	1.00	1.00

Source: Congressional Budget Office tabulations of data from the March Current Population Survey, 1974, 1980, and 1988.

Including noncash income and taxes.—A family's well-being is determined not only by its cash income, but also by any noncash income it receives. Yet, analyses of how families have fared over time generally ignore noncash benefits, both those received from employers in the form of fringe benefits and those provided through social welfare transfer programs. As a result, such analyses understate how well off families are. Also, because in-kind income has grown as a share of personal income, omitting it from income comparisons over time means that the understatement becomes progressively greater, the longer the period of observation. In-kind income—employer-provided benefits and government transfer—increased from 11 percent of personal income in 1970 to about 18 percent in 1984.

Unfortunately, it is not possible to include all noncash benefits in income distribution calculations because the necessary family-level data do not now exist. While information is available about the aggregate amounts of employer-provided fringe benefits, no large-scale data sets allocate such benefits among individuals. As part of its Current Population Survey (CPS), the Bureau of the Census has been collecting information about receipt in-kind transfers from the Government—such as Medicaid, Medicare, food stamps, and housing assistance—but only since 1979. While these benefits could be included in total income estimates, the omission of most noncash health and pension income from private businesses would skew the income distribution toward low-income families, thus giving an inaccurate picture of the well-being of families across the income scale and over time. Consequently, this analysis omits the insurance value of health benefits, both government and employer provided. However, because noncash benefits such as food stamps, school lunch, and housing benefits have been substituting for the decline in cash (AFDC) means-tested benefits, these are included. Since Census did not collect this data until 1979, these comparisons can only be for the time period 1979 to 1987.

While analyses of trends in family well-being are generally based on income before taxes, after-tax income would provide a better measure of the resources available to families to meet their needs. Both income and payroll taxes reduce disposable income; using pretax income therefore overstates how well off families are. In terms of examining trends over time, this factor would not matter if taxes remained a fixed fraction of income. Between 1973 and 1987, however, the Social Security tax rates increased by over 20 percent, and the maximum amount of earnings subject to the tax grew by nearly 60 percent in real terms. Over the same period, the percentage of income paid in Federal income taxes fluctuated between 13 percent and nearly 17 percent with a generally upward trend until the 1981 tax reduction. At least until recent years, ignoring taxes would thus have caused trends in family income to look better than they have actually been.

The concept of income that we have been using—family cash income (adjusted for family size)—is defined as all cash income (earned, interest, dividends, cash transfers, etc.). Table 35 introduces the concept of post-tax income plus food and housing benefits. This concept is defined as family cash income minus taxes, plus the estimated cash value of food and housing benefits. In comparing the percent change in post-tax income plus food and housing benefits to the percent change in family cash income over the same time period, we can see the effects of changes in taxes and food and housing benefits on income. Note that taxes include only Federal payroll and income taxes. The FICA employee tax and individual income taxes are subtracted from family cash income. A more complete distribution of the change in tax burdens by income and family type is shown in a separate analysis in the next subsection.

Table 35 illustrates the change in family well-being using this new type of income measure for six major family types. Because AFI is a more difficult concept, both the AFI measure of income and income in constant dollars are shown. Throughout tables 35 to 41, there are two concepts. Either the quintiles are defined based on AFI, weighted by persons, with the income measure reported as AFI, or the quintiles are defined based on family income in dollars and the constant dollar income amount is reported.

Table 35 shows the difference in percent change between 1979 and 1987 for AFI using post-tax income plus food and housing benefits, compared to AFI using cash income. The results are comparable. For example, among all families, the bottom quintile had a reduction in income of 9.2 percent under the expanded income definition compared to 9.8 percent under AFI cash income. The top income quintile gained 18.7 percent using the post-tax measure compared to 15.6 using the AFI cash measure. While the percentage changes in income across time are comparable, the actual level of incomes are substantially different. For example, the income of the average person in the top quintile in 1987 was 8.51 times poverty, using AFI cash income, compared to 6.93 times poverty using AFI post-tax income. The biggest difference between cash income and post-tax income plus food and housing is in the bottom quintile of single mothers with children.

Tables 36 through 41 present changes in income by age of head, and by race, using four different measures of income. The most significant result is that the income losses are concentrated in families whose heads are under age 35. As table 36 shows, among all families whose heads are under age 35, the AFI cash income declined by 26.9 percent between 1979 and 1987, while for heads ages 35–49, the decline was 1.9 percent, and for family heads ages 50–64, the decline was 9.7 percent. The results for the family heads ages 65 and over are almost identical to the results for the elderly family type. The bottom portion of table 36 shows that for families with children, family heads under 35 had real incomes decline by 28.2 percent, while family heads age 35 and over suffered declines of only 7.3 percent. For example, the bottom quintile within families with children for a family head under age 35 declined from .71 times poverty to .51 times poverty from 1979 to 1987. The family head age 35 and over in the bottom quintile had a decline of .96 times poverty to .89 times poverty. Table 37 presents similar results on the basis of income reported in constant dollars.

Tables 38 through 41 present changes in income for white versus nonwhite families within various family types. Table 38 presents information for all families, table 39 for all families with children, table 40 for nonelderly childless units, and table 41 for elderly childless units. Each table contains four different measures of income. The primary result is illustrated in chart 6. Nonwhite income inequality has grown more than white income inequality. For example, using the AFI income measure, the average person in the bottom quintile of nonwhite families had real income decline by 17.6 percent, while similar persons in the bottom quintile of white families had a decline of only 7.4 percent. In contrast, the average person in the top quintile of nonwhite families gained 33.3 percent, while similar persons in the top quintile of white families gained 24.5 percent.

Using AFI cash income, the average nonwhite person had an income gain of 25.2 percent from 1973 to 1987, while the average white person had an income gain of 17.5 percent. However, this average nonwhite person had income increase from 2.14 times poverty to 2.68 times poverty, while the corresponding average white person had income increase from 3.48 times poverty to 4.09 times poverty. The absolute level of the increase is .54 times poverty for the average nonwhite person and .61 times poverty for the average white person. Thus, it is always important to reference the base numbers from which percentage changes are calculated.

As shown in table 39, between white and nonwhite families with children, percentage decreases in the bottom quintiles as well as percentage increases in the top quintiles were remarkably similar, particularly for income changes between 1979 and 1987. A similar result is true for white and nonwhite individuals across income quintiles for nonelderly childless units (table 40).

For elderly childless units, income gains between 1979 and 1987 were somewhat larger for those individuals in white families than individuals in nonwhite families. However, all quintiles using any measure of income showed increases. There are no negative percentage changes in income in table 41, and most percentage increases are greater than 10 percent.

TABLE 35.—POST-TAX INCOME INCLUDING FOOD AND HOUSING BENEFITS, BY FAMILY TYPE, 1979 AND 1987 (AS A FRACTION OF POVERTY AND IN CONSTANT 1987 DOLLARS)

	AFI approach [1]				Non-AFI approach [2]			
	Average post-tax AFI including food and housing benefits			Average cash income, percent change, 1979–87	Average post-tax income plus food and housing, constant 1987 dollars			Average cash income, percent change, 1979–87
	1979	1987	Percent change		1979	1987	Percent change	
All families:								
Lowest	0.98	0.89	−9.2	−9.8	6,692	6,178	−7.7	−6.1
Second	1.91	1.90	−.5	−.5	14,742	13,986	−5.1	−2.2
Middle	2.69	2.84	5.6	5.2	21,742	22,035	1.3	.9
Fourth	3.62	4.01	10.8	9.3	29,293	30,997	5.8	4.0
Highest	5.84	6.93	18.7	15.6	45,404	52,584	15.8	11.1
Average	3.01	3.31	10.0	9.3	23,574	25,156	6.7	5.6
All families with children:								
Lowest	.94	.81	−13.8	−16.5	10,123	8,277	−18.2	−20.8
Second	1.80	1.70	−5.6	−5.1	19,697	17,895	−9.1	−8.0
Middle	2.47	2.53	2.4	2.1	26,830	26,968	.5	.1
Fourth	3.23	3.49	8.0	7.0	34,284	36,547	6.6	5.2
Highest	4.91	5.83	18.7	16.7	50,839	58,720	15.5	12.1
Average	2.67	2.87	7.5	7.1	28,354	29,681	4.7	4.1
Married couples with children:								
Lowest	1.18	1.09	−7.6	−7.5	14,224	13,052	−8.2	−6.9
Second	2.03	2.05	1.0	.9	23,506	23,423	−.4	.6
Middle	2.67	2.83	6.0	5.4	29,727	31,303	5.3	5.2
Fourth	3.43	3.78	10.2	8.8	36,789	40,179	9.2	8.3

Highest	5.08	6.17	21.5	19.1	53,044	62,774	18.3	14.3
Average	2.88	3.18	10.4	9.9	31,457	34,146	8.5	7.8
Single mothers with children:								
Lowest	.50	.44	−12.0	−21.2	4,763	4,049	−15.0	−21.0
Second	.96	.81	−15.6	−18.7	9,686	7,844	−19.0	−20.9
Middle	1.33	1.17	−12.0	−12.3	12,743	11,000	−13.7	−14.6
Fourth	1.92	1.83	−4.7	−3.0	17,154	16,396	−4.4	−3.4
Highest	3.24	3.51	8.3	9.8	27,526	29,981	8.9	8.8
Average	1.59	1.55	−2.5	−1.3	14,375	13,854	−3.6	−2.3
Nonelderly childless units:								
Lowest	1.16	1.04	−10.3	−9.8	5,261	4,736	−10.0	−8.6
Second	2.51	2.46	−2.0	−1.7	12,944	12,692	−1.9	−1.7
Middle	3.52	3.68	4.5	3.3	19,826	20,588	3.8	2.9
Fourth	4.62	5.03	8.9	7.2	28,548	30,692	7.5	5.4
Highest	7.08	8.22	16.1	11.9	47,106	54,092	14.8	11.2
Average	3.78	4.09	8.2	6.5	22,738	24,560	8.0	6.3
Elderly childless units:								
Lowest	.94	1.05	11.7	12.2	4,544	5.065	11.5	11.6
Second	1.64	1.85	12.8	14.9	7,948	9,043	13.8	14.7
Middle	2.39	2.73	14.2	15.3	12,338	14,193	15.0	17.3
Fourth	3.41	3.90	14.4	15.0	18,758	21,880	16.6	17.1
Highest	6.19	7.27	17.4	14.3	36,386	42,834	17.7	14.8
Average	2.91	3.36	15.5	14.6	15,994	18,603	16.3	15.5

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[1] Quintiles are defined based on post-tax AFI which includes food and housing benefits.

[2] Quintiles are defined based on post-tax income which includes food and housing benefits and is not adjusted for family size.

TABLE 36.—FAMILY CASH INCOME AND POST-TAX FAMILY INCOME PLUS FOOD AND HOUSING BENEFITS, BASED ON AFI, BY AGE OF HEAD AND QUINTILE,[1] WEIGHTED BY PERSONS, 1973, 1979 AND 1987

Quintile	Average family cash income [1]					Post-tax income plus food and housing [2]		
	1973	1979	1987	Percent change		1979	1987	Percent change
				1973–87	1979–87			1979–87
ALL FAMILIES								
Family head under age 35:								
Lowest	0.84	0.78	0.57	−32.1	−26.9	0.86	0.68	−23.3
Second	1.84	1.86	1.63	−11.4	−12.4	1.70	1.50	−11.8
Middle	2.59	2.73	2.64	1.9	−3.3	2.36	2.29	−3.0
Fourth	3.48	3.76	3.82	9.8	1.6	3.13	3.22	2.9
Highest	5.69	6.09	6.71	17.9	10.2	4.83	5.42	12.2
Average	2.89	3.04	3.07	6.2	1.0	2.57	2.62	1.9
Family head age 35 to 49:								
Lowest	1.04	1.05	1.03	−1.0	−1.9	1.09	1.04	−4.6
Second	2.14	2.33	2.48	15.9	6.4	2.07	2.18	5.3
Middle	2.99	3.29	3.66	22.4	11.2	2.82	3.13	11.0
Fourth	3.99	4.44	5.08	27.3	14.4	3.68	4.25	15.5
Highest	6.72	7.19	8.77	30.5	22.0	5.66	7.05	24.6
Average	3.37	3.66	4.20	24.6	14.8	3.06	3.53	15.4
Family head age 50 to 64:								
Lowest	1.10	1.13	1.02	−7.3	−9.7	1.14	1.02	−10.5
Second	2.47	2.64	2.61	5.7	−1.1	2.38	2.37	−0.4
Middle	3.61	3.91	4.12	14.1	5.4	3.35	3.58	6.9
Fourth	4.96	5.41	5.91	19.2	9.2	4.47	4.98	11.4

Highest	8.26	8.95	10.22	23.7	14.2	6.93	8.23	18.8
Average	4.08	4.41	4.78	17.2	8.4	3.66	4.03	10.1
Family head age 65 and over:								
Lowest	.79	.87	.97	22.8	11.5	.92	1.01	9.8
Second	1.41	1.58	1.79	27.0	13.3	1.60	1.79	11.9
Middle	2.08	2.35	2.71	30.3	15.3	2.32	2.64	13.8
Fourth	3.15	3.50	4.03	27.9	15.1	3.31	3.80	14.8
Highest	6.79	7.10	8.14	19.9	14.6	6.06	7.12	17.5
Average	2.85	3.08	3.53	23.9	14.6	2.84	3.27	15.1

FAMILIES WITH CHILDREN

Family head under age 35:								
Lowest	.82	.71	.51	−37.8	−28.2	.83	.66	−20.5
Second	1.75	1.70	1.43	−18.3	−15.9	1.59	1.37	−13.8
Middle	2.44	2.50	2.34	−4.1	−6.4	2.18	2.07	−5.0
Fourth	3.20	3.38	3.37	5.3	−.3	2.86	2.88	.7
Highest	4.96	5.24	5.71	15.1	9.0	4.25	4.70	10.6
Average	2.63	2.71	2.67	1.5	−1.5	2.34	2.33	−.4
Family head aged 35 and over:								
Lowest	.97	.96	.89	−8.2	−7.3	1.03	.95	−7.8
Second	2.02	2.16	2.19	8.4	1.4	1.95	1.96	.5
Middle	2.84	3.08	3.29	15.8	6.8	2.66	2.85	7.1
Fourth	3.78	4.13	4.55	20.4	10.2	3.47	3.86	11.2
Highest	6.12	6.53	7.79	27.3	19.3	5.21	6.34	21.7
Average	3.15	3.37	3.74	18.7	11.0	2.86	3.19	11.5

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[1] Quintiles are defined based on average AFI (cash income only).

[2] Quintiles are defined based on post-tax AFI, which includes food and housing benefits.

TABLE 37.—FAMILY CASH INCOME AND POST-TAX FAMILY INCOME PLUS FOOD AND HOUSING BENEFITS, IN 1987 CONSTANT DOLLARS UNADJUSTED FOR FAMILY SIZE, BY AGE OF HEAD AND QUINTILE, WEIGHTED BY FAMILIES, 1973, 1979 AND 1987

Quintile	Average family cash income [1]					Post-tax income plus food and housing [2]		
				Percent change				
	1973	1979	1987	1973–87	1979–87	1979	1987	Percent change 1979–87
ALL FAMILIES								
Family head under age 35:								
Lowest	6,058	5,508	4,149	−31.5	−24.7	5,678	4,470	−21.3
Second	15,141	13,763	12,090	−20.2	−12.2	12,472	11,075	−11.2
Middle	22,834	21,331	20,028	−12.3	−6.1	18,232	17,232	−5.5
Fourth	31,158	30,448	30,067	−3.5	−1.2	25,314	25,128	−.7
Highest	49,660	48,882	52,423	5.6	7.2	39,091	42,664	9.1
Average	24,971	23,986	23,751	−4.9	−1.0	20,157	20,114	−.2
Family head age 35 to 49:								
Lowest	10,221	9,588	8,114	−20.6	−15.4	9,528	8,021	−15.8
Second	22,968	22,635	21,631	−5.8	−4.4	19,905	18,822	−5.4
Middle	32,538	33,198	33,526	3.0	1.0	28,106	28,362	.9
Fourth	43,356	44,741	47,014	8.4	5.1	37,052	39,277	6.0
Highest	70,003	71,611	80,332	14.8	12.2	56,817	64,928	14.3
Average	35,818	36,355	38,123	6.4	4.9	30,282	31,882	5.3
Family head age 50 to 64:								
Lowest	6,483	6,218	5,940	−8.4	−4.5	6,180	5,934	−4.0
Second	17,115	17,636	17,313	1.2	−1.8	15,834	15,535	−1.9
Middle	27,339	29,111	29,701	8.6	2.0	24,735	25,506	3.1
Fourth	39,561	42,579	45,177	14.2	6.1	35,067	37,719	7.6

Highest	67,919	73,919	82,301	21.2	11.3	57,804	66,546	15.1
Average	31,683	33,893	36,086	13.9	6.5	27,923	30,248	8.3
Family head age 65 and over:								
Lowest	3,791	4,233	4,713	24.3	11.3	4,469	4,966	11.1
Second	6,908	7,679	8,802	27.4	14.6	7,898	8,943	13.2
Middle	10,653	12,281	14,353	34.7	16.9	12,302	14,177	15.2
Fourth	17,086	19,558	22,826	33.6	16.7	18,819	21,850	16.1
Highest	41,453	43,561	50,362	21.5	15.6	37,483	44,325	18.3
Average	15,979	17,463	20,211	26.5	15.7	16,195	18,852	16.4
FAMILIES WITH CHILDREN								
Family head under age 35:								
Lowest	8,018	6,527	4,539	−43.4	−30.5	7,591	5,823	−23.3
Second	17,951	16,249	13,417	−25.3	−17.4	15,273	12,999	−14.9
Middle	25,436	24,909	22,847	−10.2	−8.3	21,748	20,174	−7.2
Fourth	33,053	33,620	33,440	1.2	−.5	28,396	28,597	.7
Highest	51,095	51,076	55,611	8.8	8.9	41,539	45,889	10.5
Average	27,112	26,476	25,971	−4.2	−1.9	22,910	22,696	−.9
Family head age 35 and over:								
Lowest	11,226	10,722	9,443	−15.9	−11.9	11,192	9,959	−11.0
Second	24,109	24,178	23,834	−1.1	−1.4	21,836	21,300	−2.5
Middle	33,607	34,722	35,958	7.0	3.6	29,836	30,977	3.8
Fourth	44,447	46,305	49,443	11.2	6.8	38,835	41,836	7.7
Highest	70,812	73,896	83,282	17.6	12.7	59,320	67,998	14.6
Average	36,842	37,964	40,392	9.6	6.4	32,204	34,414	6.9

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[1] Quintiles are defined based on family cash income.

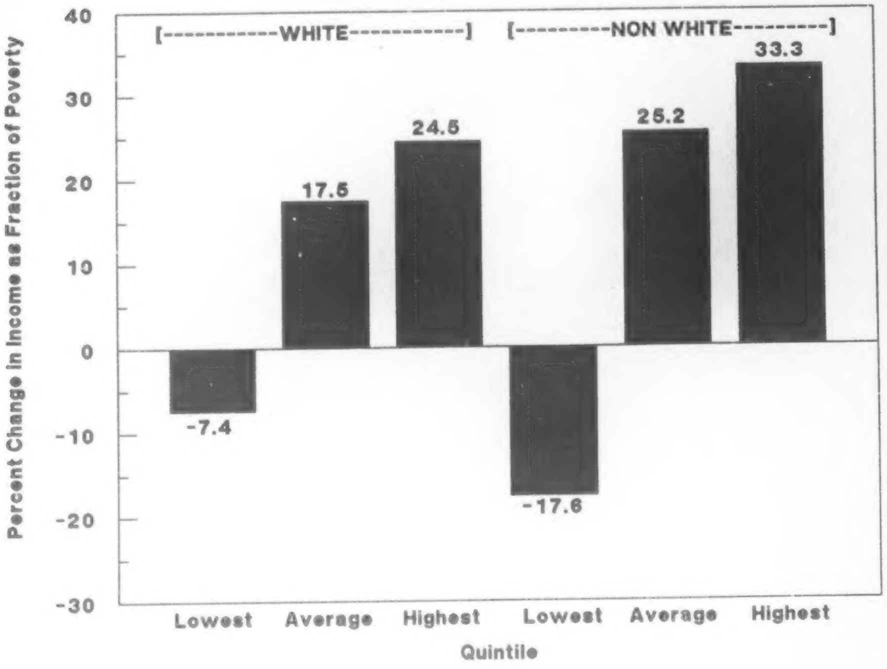
[2] Quintiles are defined based on post-tax income including food and housing benefits.

TABLE 38.—FAMILY CASH INCOME AND POST-TAX INCOME PLUS FOOD AND HOUSING FOR ALL FAMILIES, BY RACE OF HEAD, 1973, 1979, AND 1987

Quintile	Average family cash income					Post-tax income plus food and housing		
	1973	1979	1987	Percent change		1979	1987	Percent change 1979–87
				1973–87	1979–87			
FAMILY INCOME AS A FRACTION OF POVERTY, WEIGHTED BY PERSONS								
White:								
Lowest	1.08	1.08	1.00	−7.4	−7.4	1.09	1.01	−7.3
Second	2.15	2.28	2.30	7.0	.9	2.06	2.07	.5
Middle	3.01	3.26	3.46	15.0	6.1	2.82	3.01	6.7
Fourth	4.10	4.49	4.93	20.2	9.8	3.76	4.18	11.2
Highest	7.06	7.59	8.79	24.5	15.8	6.00	7.14	19.0
Average	3.48	3.74	4.09	17.5	9.4	3.15	3.48	10.5
Non-white:								
Lowest	0.51	0.50	0.42	−17.6	−16.0	0.66	0.57	−13.6
Second	1.05	1.12	1.11	5.7	−.9	1.22	1.15	−5.7
Middle	1.69	1.89	2.05	21.3	8.5	1.79	1.88	5.0
Fourth	2.59	2.96	3.32	28.2	12.2	2.59	2.89	11.6
Highest	4.87	5.39	6.49	33.3	20.4	4.41	5.35	21.3
Average	2.14	2.37	2.68	25.2	13.1	2.13	2.37	11.3
FAMILY INCOME IN 1987 DOLLARS, WEIGHTED BY FAMILIES								
White:								
Lowest	5,999	6,006	5,797	−3.4	−3.5	6,076	5,863	−3.5
Second	15,117	14,957	14,778	−2.2	−1.2	13,786	13,578	−1.5
Middle	24,832	24,551	24,878	.2	1.3	21,289	21,703	1.9

Fourth	35,751	36,340	37,964	6.2	4.5	30,376	32,175	5.9
Highest	61,829	63,480	70,520	14.1	11.1	50,512	57,504	13.8
Average	28,707	29,067	30,787	7.2	5.9	24,408	26,165	7.2
Non-white:								
Lowest	3,404	3,321	2,886	−15.2	−13.1	3,955	3,536	−10.6
Second	8,579	8,380	7,885	−8.1	−5.9	9,007	8,428	−6.4
Middle	14,847	14,978	15,357	3.4	2.5	14,298	14,201	−0.7
Fourth	23,584	24,909	26,340	11.7	5.7	21,909	22,953	4.8
Highest	44,626	47,880	55,266	23.8	15.4	39,600	45,877	15.9
Average	19,008	19,894	21,547	13.4	8.3	17,753	18,999	7.0

CHART 6



Percent Change in Family Cash Income as a Fraction of Poverty by Quintile, by Race, 1973 to 1987

Note: AFI, weighted by persons.

TABLE 39.—FAMILY CASH INCOME AND POST-TAX INCOME PLUS FOOD AND HOUSING FOR FAMILIES WITH CHILDREN, BY RACE OF HEAD, 1973, 1979, AND 1987

Quintile	Average family cash income					Post-tax income plus food and housing		
	1973	1979	1987	Percent change		1979	1987	Percent change
				1973–87	1979–87			1979–87
FAMILY INCOME AS A FRACTION OF POVERTY, WEIGHTED BY PERSONS								
White:								
Lowest	1.09	1.05	0.89	−18.3	−15.2	1.07	0.93	−13.1
Second	2.11	2.19	2.11	0.0	−3.7	1.96	1.89	−3.6
Middle	2.83	3.03	3.13	10.6	3.3	2.61	2.71	3.8
Fourth	3.69	4.00	4.31	16.8	7.7	3.36	3.65	8.6
Highest	5.88	6.29	7.35	25.0	16.9	5.04	6.00	19.0
Average	3.12	3.31	3.56	14.1	7.6	2.81	3.04	8.2
Non-white:								
Lowest	0.50	0.46	0.36	−28.0	−21.7	0.66	0.56	−15.2
Second	0.98	1.03	0.95	−3.1	−7.8	1.16	1.05	−9.5
Middle	1.56	1.70	1.81	16.0	6.5	1.64	1.68	2.4
Fourth	2.36	2.67	2.94	24.6	10.1	2.36	2.58	9.3
Highest	4.29	4.75	5.75	34.0	21.1	3.93	4.78	21.6
Average	1.94	2.12	2.37	22.2	11.8	1.95	2.13	9.2

TABLE 39.—FAMILY CASH INCOME AND POST-TAX INCOME PLUS FOOD AND HOUSING FOR FAMILIES WITH CHILDREN, BY RACE OF HEAD, 1973, 1979, AND 1987—Continued

Quintile	Average family cash income					Post-tax income plus food and housing		
	1973	1979	1987	Percent change		1979	1987	Percent change
				1973–87	1979–87			1979–87
FAMILY INCOME IN 1987 DOLLARS, WEIGHTED BY FAMILIES								
White:								
Lowest	11,284	10,216	8,418	−25.4	−17.6	10,412	8,871	−14.8
Second	22,975	22,548	21,321	−7.2	−5.4	20,139	19,106	−5.1
Middle	31,220	31,929	32,512	4.1	1.8	27,385	27,985	2.2
Fourth	40,907	42,283	44,869	9.7	6.1	35,400	37,976	7.3
Highest	65,687	68,114	76,387	16.3	12.1	54,867	62,511	13.9
Average	34,414	35,017	36,701	6.6	4.8	29,640	31,290	5.6
Non-white:								
Lowest	5,175	4,538	3,401	−34.3	−25.0	6,303	5,112	−18.9
Second	11,391	10,803	9,600	−15.7	−11.1	12,057	10,740	−10.9
Middle	18,340	18,397	18,407	.4	.1	17,860	17,181	−3.8
Fourth	27,706	29,740	31,119	12.3	4.6	26,395	27,346	3.6
Highest	48,813	52,361	61,398	25.8	17.3	43,507	51,166	17.6
Average	22,285	23,168	24,785	11.2	7.0	21,225	22,309	5.1

TABLE 40.—FAMILY CASH INCOME AND POST-TAX INCOME PLUS FOOD AND HOUSING FOR NONELDERLY CHILDLESS UNITS, BY RACE OF HEAD, 1973, 1979, AND 1987

Quintile	Average family cash income					Post-tax income plus food and housing		
	1973	1979	1987	Percent change		1979	1987	Percent change
				1973-87	1979–87			1979–87
FAMILY INCOME AS A FRACTION OF POVERTY, WEIGHTED BY PERSONS								
White:								
Lowest	1.34	1.36	1.26	−6.0	−7.4	1.27	1.16	−8.7
Second	2.96	3.05	3.02	2.0	−1.0	2.64	2.61	−1.1
Middle	4.20	4.40	4.55	8.3	3.4	3.65	3.83	4.9
Fourth	5.57	5.86	6.30	13.1	7.5	4.73	5.18	9.5
Highest	9.02	9.43	10.59	17.4	12.3	7.22	8.41	16.5
Average	4.62	4.82	5.14	11.3	6.6	3.90	4.24	8.7
Non-white:								
Lowest	0.60	0.62	0.54	−10.0	−12.9	0.67	0.57	−14.9
Second	1.66	1.78	1.73	4.2	−2.8	1.68	1.58	−6.0
Middle	2.61	2.84	3.01	15.3	6.0	2.47	2.61	5.7
Fourth	3.81	4.10	4.63	21.5	12.9	3.44	3.88	12.8
Highest	6.55	6.96	8.00	22.1	14.9	5.51	6.48	17.6
Average	3.05	3.26	3.58	17.4	9.8	2.75	3.02	9.8

TABLE 40.—FAMILY CASH INCOME AND POST-TAX INCOME PLUS FOOD AND HOUSING FOR NONELDERLY CHILDLESS UNITS, BY RACE OF HEAD, 1973, 1979, AND 1987—Continued

Quintile	Average family cash income					Post-tax income plus food and housing		
	1973	1979	1987	Percent change		1979	1987	Percent change
				1973–87	1979–87			1979–87
FAMILY INCOME IN 1987 DOLLARS WEIGHTED BY FAMILIES								
White:								
Lowest	5,956	5,993	5,581	−6.3	−6.9	5,645	5,192	−8.0
Second	15,590	15,349	15,261	−2.1	−0.6	13,260	13,163	−0.7
Middle	24,606	24,313	25,067	1.9	3.1	20,174	20,959	3.9
Fourth	35,691	36,077	38,127	6.8	5.7	29,210	31,352	7.3
Highest	62,679	64,461	71,715	14.4	11.3	49,916	57,420	15.0
Average	28,905	29,239	31,150	7.8	6.5	23,641	25,617	8.4
Non-white:								
Lowest	2,568	2,649	2,338	−9.0	−11.7	2,857	2,511	−12.1
Second	7,997	8,325	7,979	−0.2	−4.2	7,953	7,496	−5.7
Middle	14,387	14,923	15,562	8.2	4.3	12,968	13,460	3.8
Fourth	21,830	23,541	25,632	17.4	8.9	19,774	21,523	8.8
Highest	41,840	45,119	52,669	25.9	16.7	36,130	42,845	18.6
Average	17,724	18,911	20,836	17.6	10.2	15,936	17,567	10.2

TABLE 41.—FAMILY CASH INCOME AND POST-TAX INCOME PLUS FOOD AND HOUSING FOR ELDERLY CHILDLESS UNITS, BY RACE OF HEAD, 1973, 1979, AND 1987

Quintile	Average family cash income					Post-tax income plus food and housing		
	1973	1979	1987	Percent change		1979	1987	Percent change
				1973–87	1979–87			1979–87
FAMILY INCOME AS A FRACTION OF POVERTY, WEIGHTED BY PERSONS								
White:								
Lowest	0.86	0.94	1.07	24.4	13.8	0.98	1.10	12.2
Second	1.50	1.69	1.95	30.0	15.4	1.71	1.95	14.0
Middle	2.19	2.51	2.91	32.9	15.9	2.48	2.85	14.9
Fourth	3.33	3.70	4.29	28.8	15.9	3.49	4.03	15.5
Highest	7.14	7.46	8.55	19.7	14.6	6.33	7.47	18.0
Average	3.01	3.26	3.76	24.9	15.3	3.00	3.48	16.0
Non-white:								
Lowest	0.59	0.64	0.75	27.1	17.2	0.71	0.81	14.1
Second	1.00	1.09	1.17	17.0	7.3	1.16	1.25	7.8
Middle	1.37	1.55	1.79	30.7	15.5	1.61	1.80	11.8
Fourth	2.03	2.40	2.74	35.0	14.2	2.35	2.61	11.1
Highest	4.18	5.08	5.58	33.5	9.8	4.48	4.93	10.0
Average	1.83	2.15	2.41	31.7	12.1	2.06	2.28	10.7

TABLE 41.—FAMILY CASH INCOME AND POST-TAX INCOME PLUS FOOD AND HOUSING FOR ELDERLY CHILDLESS UNITS, BY RACE OF HEAD, 1973, 1979, AND 1987—Continued

Quintile	Average family cash income					Post-tax income plus food and housing		
	1973	1979	1987	Percent change		1979	1987	Percent change
				1973–87	1979–87			1979–87
FAMILY INCOME IN 1987 DOLLARS, WEIGHTED BY FAMILIES								
White:								
Lowest	3,948	4,417	4,984	26.2	12.8	4,620	5,181	12.2
Second	7,142	7,994	9,245	29.4	15.7	8,160	9,338	14.4
Middle	10,995	12,638	14,882	35.4	17.8	12,591	14,653	16.4
Fourth	17,449	19,876	23,339	33.8	17.4	19,084	22,322	17.0
Highest	42,220	44,126	50,809	20.3	15.1	37,836	44,691	18.1
Average	16,351	17,810	20,651	26.3	16.0	16,458	19,237	16.9
Non-white:								
Lowest	2,635	3,032	3,508	33.1	15.7	3,310	3,799	14.8
Second	4,686	5,071	5,274	12.6	4.0	5,482	5,858	6.9
Middle	6,751	7,244	8,272	22.5	14.2	7,661	8,521	11.2
Fourth	10,080	11,951	14,099	39.9	18.0	12,182	14,009	15.0
Highest	25,393	30,715	34,401	35.5	12.0	27,438	30,637	11.7
Average	9,909	11,602	13,111	32.3	13.0	11,215	12,565	12.0

TRENDS IN INCOME, BENEFITS, AND TAXES, 1979–1987

Tables 42–52 show the changes in income, transfers, and taxes from 1979 to 1987 for a variety of family types using alternative definitions of income. The following definitions were used in isolating the components of income:

Pre-transfer income: all cash income except government transfers; includes earnings, dividends, interest; excludes Social Security payments, unemployment compensation, AFDC, etc.

Non-means-tested cash transfers: all cash transfers that are not awarded on the basis of income level; includes mostly Social Security; also includes veterans' benefits, unemployment compensation, etc.

Means-tested cash transfers: all cash transfers that are awarded on the basis of income level; includes mostly AFDC; also includes SSI and general assistance.

Means-tested noncash transfers: "food and housing:" the cash equivalent of food stamps, school lunches, public housing, and housing subsidies.

Taxes: federal individual income and employee payroll taxes.

Tables 42–52 define quintiles on the basis of post-tax income plus food and housing. Thus as one goes across columns for a given quintile, the people in that quintile do not change. This is unlike the Census report (described later) where families are resorted into quintiles with each change in income definition.

Tables 42–44 show these components of income as fractions of poverty, for all families, single mothers with children, and elderly childless units respectively. As shown in table 42, the poorest 20 percent of the population (all families) experienced either decreases or no changes in every component of income for a total decrease equivalent to 9 percent of poverty (5 percent in pre-transfer income, 4 percent in transfers).

To give meaning to the term "percent of poverty," the average family size, as shown in table 33, is 2.44 persons. Thus, for 1987, the poverty threshold for this average size family is roughly $7,500. Nine percent of this is $675. A slightly lower amount of income loss is shown in table 45 due to a different concept of income. The income loss for the bottom quintile, as shown in table 42, was in pretransfer and non-means-tested transfer income. This, to a large extent, hides the changes that took place to mean-tested cash transfer programs. For example, the average person in the bottom quintile in 1979 had income of 0.80 times poverty prior to receiving means-tested cash transfers of 0.13 times poverty. The average person in 1987 in this bottom quintile had income of 0.71 times poverty and received no increase in means-tested cash transfers. If the means-tested programs had had no changes, one would've expected an increase in means-tested transfers.

A recent Census report entitled, "Measuring the Effect of Benefits and Taxes on Income and Poverty: 1986," summarized in a later subsection, concluded that, "government transfers were much more significant than taxes in lowering income inequality." However, this result is preordained given the way income distribution inequality statistics are computed. A somewhat different picture is presented in table 42. Even though taxes represented in the table are not the full complement of taxes, the results are probably not biased significantly by this exclusion. All government transfers are shown in the column entitled "All transfers" in the table. In 1987, they ranged from 0.25 times poverty in the highest quintile to 0.39 times poverty in the lowest quintile. Tax burdens, on the other hand, reduced income by 0.04 times poverty in the lowest quintile and by 1.56 times poverty in the highest quintile. Thus in absolute terms, or even in percentage terms, the variation in taxes across income quintiles is much more pronounced than the distribution of all transfers across income quintiles.

The reason for the Census result can be easily shown from table 42. For 1987, the average person in the top quintile had pre-transfer family income of 15.3 times that of the person in the lowest quintile (8.24 divided by 0.54). After transfers, the average person in the top quintile had family income 9.1 times that of the person in the lowest quintile (8.24 + 0.25 of transfers divided by 0.54 + 0.39 of transfers). After taxes are taken into account, the average person in the top quintile has income of 7.8 times that of the person in the lowest quintile. Therefore, given the very low levels of pre-transfer income in the lowest quintile, almost any level of transfers to individuals in this quintile will reduce income inequality more than even the most progressive of tax systems. There are many other reasons for the differences between these results and those of the Census including not taking into account health benefits, the value of owner-occupied housing, a less comprehensive definition of taxes, and as referred to earlier, income quintiles remained unchanged.

The other major result of table 42 is that changes in income are primarily a result of what happens to pretransfer income. In only the lowest quintile is there any significant change in post-tax income plus transfers due to anything other than changes in pre-transfer income.

Tables 43 and 44 present results in an identical fashion to that of table 42 for different family types.

As shown in table 43, for single mothers with children, changes in means-tested transfers were most significant for the second income quintile, and explain about a third of the income loss for that quintile. The average person in this quintile had only 0.28 times poverty of pre-means-tested cash income. Income losses in non-means-tested transfers were significant in the third and fourth quintiles. Comparing the fifth to the final column, changes in transfer policy explain about one-sixth of the income loss in the bottom quintile, 40 percent of the income loss in the second quintile, 31 percent in the third income quintile, all of the income loss in the fourth quintile, and two-thirds of the income loss in the fifth quintile.

At first glance, comparing the second quintile with the lowest quintile in table 43 suggests an anomaly. Even though the second quintile had higher pre-transfer income, the level of all transfers is twice that of transfers in the lowest quintile. This same result can be found in table 48, and table 27 of Appendix G. The reason for this is that many families in the second quintile probably had near zero pre-transfer income and are receiving AFDC benefit levels in high-paying States. They are being averaged with working poor mothers with children with earnings at or near the poverty level. Families in the lowest quintile are probably in the lower AFDC benefit States and as table 27 shows, a significant proportion are receiving no governmental assistance. Remember that quintiles are based upon post-tax income plus food and housing and the quintile remains unchanged as one moves across columns in the table.

Table 44 illustrates the impact of the transfer and tax system for the elderly. Pre-transfer income increased significantly in the higher quintiles. In addition, non-means-tested transfer income increased between 1979 and 1987 for all quintiles. To give meaning to these numbers as a percent of poverty, one times poverty is approximately $5,760. Thus, increases in non-means-tested transfers of 0.16 times poverty are approximately $920.

Tables 45–52 show all values in constant 1987 dollars (adjusted using CPI–X1), for six different family types. Tables 51 and 52 subdivide two family types—single mothers with children and elderly childless—by race. While these tables are not as accurate, particularly for all families, they are much easier to understand.

Tables 46, 47 and 49 show that changes in pre-transfer income are the most significant factor in changes in final income for those respective family types. As one would expect, given the transfer program changes, this is not true in table 48 (single mothers with children).

As shown in table 46, taxes decrease significantly (add to income) between 1979 and 1987 for the second quintile, and increased sharply for the highest quintile. However, the latter was more a result of the very large increase in pre-transfer income.

TABLE 42.—INCOME, TRANSFERS, AND TAXES AS A FRACTION OF POVERTY, ALL FAMILIES, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	0.59	0.21	0.13	0.09	0.43	−0.04	0.98
1987	.54	.17	.13	.09	.39	−.04	.89
Difference	−.05	−.04	0	0	−.04	0	−.09
Second:							
1979	1.80	.24	.05	.03	.32	−.21	1.91
1987	1.77	.28	.04	.02	.34	−.21	1.90
Difference	−.03	.04	−.01	−.01	.02	0	−.01
Middle:							
1979	2.85	.21	.03	.01	.25	−.41	2.69
1987	2.97	.26	.02	.01	.29	−.42	2.84
Difference	.12	.05	−.01	0	.04	−.01	.15
Fourth:							
1979	4.09	.19	.03	0	.22	−.69	3.62
1987	4.44	.25	.02	0	.27	−.70	4.01
Difference	.35	.06	−.01	0	.05	−.01	.39

TABLE 42.—INCOME, TRANSFERS, AND TAXES AS A FRACTION OF POVERTY, ALL FAMILIES, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Highest:							
1979	7.11	.21	.03	.01	.25	−1.52	5.84
1987	8.24	.24	.01	0	.25	−1.56	6.93
Difference	1.13	.03	−.02	−.01	0	−.04	1.09
Average:							
1979	3.29	.21	.05	.03	.29	−.57	3.01
1987	3.59	.24	.05	.02	.31	.59	3.31
Difference	.30	.03	0	−.01	.02	−.02	.30

TABLE 43.—INCOME, TRANSFERS, AND TAXES AS A FRACTION OF POVERTY, SINGLE MOTHERS WITH CHILDREN, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	0.16	0.04	0.17	0.13	0.34	0.00	0.50
1987	.12	.02	.16	.15	.33	−.01	.44
Difference	−.04	−.02	−.01	.02	−.01	−.01	−.06
Second:							
1979	.32	.06	.37	.22	.65	−.01	.96
1987	.23	.05	.32	.22	.59	−.01	.81
Difference	−.09	−.01	−.05	0	−.06	0	−.15
Middle:							
1979	.81	.12	.27	.17	.56	−.04	1.33
1987	.69	.10	.26	.15	.51	−.03	1.17
Difference	−.12	−.02	−.01	−.02	−.05	.01	−.16
Fourth:							
1979	1.73	.17	.10	.08	.35	−.16	1.92
1987	1.77	.11	.07	.04	.22	−.16	1.83
Difference	.04	−.06	−.03	−.04	−.13	0	−.09
Highest:							
1979	3.34	.25	.07	.03	.35	−.45	3.24
1987	3.85	.14	.03	.02	.19	−.53	3.51
Difference	.51	−.11	−.04	−.01	−.16	−.08	.27
Average:							
1979	1.27	.13	.20	.12	.45	−.13	1.59
1987	1.33	.09	.16	.11	.36	−.14	1.55
Difference	.06	−.04	−.04	−.01	−.09	−.01	−.04

TABLE 44.—INCOME, TRANSFERS, AND TAXES AS A FRACTION OF POVERTY, ELDERLY CHILDLESS UNITS, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	0.10	0.70	0.11	0.03	0.84	0.00	0.94
1987	.13	.79	.10	.04	.93	−.01	1.05
Difference	.03	.09	−.01	.01	.09	−.01	.11
Second:							
1979	.43	1.09	.10	.03	1.22	−.01	1.64
1987	.55	1.24	.06	.02	1.32	−.02	1.85
Difference	.12	.15	−.04	−.01	.10	−.01	.21
Middle:							
1979	1.14	1.23	.05	.02	1.30	−.05	2.39
1987	1.35	1.41	.03	.01	1.45	−.07	2.73
Difference	.21	.18	−.02	−.01	.15	−.02	.34
Fourth:							
1979	2.33	1.23	.04	.02	1.29	−.21	3.41
1987	2.72	1.38	.05	.00	1.43	−.25	3.90
Difference	.39	.15	.01	−.02	.14	−.04	.49
Highest:							
1979	6.08	1.13	.06	0	1.19	−1.08	6.19
1987	6.89	1.36	.05	0	1.41	−1.03	7.27
Difference	.81	.23	−.01	0	.22	.05	1.08
Average:							
1979	2.02	1.07	.07	.02	1.16	−.27	2.91
1987	2.33	1.23	.06	.01	1.30	−.27	3.36
Difference	.31	.16	−.01	−.01	.14	0	.45

TABLE 45.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ALL FAMILIES, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	3,669	1,708	975	550	3,233	−210	6,692
1987	3,529	1,411	924	558	2,893	−244	6,178
Difference	−140	−297	−51	8	−340	0	−514
Second:							
1979	13,340	2,240	415	233	2,888	−1,486	14,742
1987	12,470	2,505	296	150	2,951	−1,435	13,986
Difference	−870	265	−119	−83	63	0	−756
Middle:							
1979	22,840	1,930	216	85	2,231	−3,329	21,742

TABLE 45.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ALL FAMILIES, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
1987	22,842	2,237	151	43	2,431	−3,238	22,035
Difference	2	307	−65	−42	200	91	293
Fourth:							
1979	33,051	1,648	213	49	1,910	−5,667	29,293
1987	34,309	2,041	132	21	2,194	−5,506	30,997
Difference	1,258	393	−81	−28	284	161	1,704
Highest:							
1979	55,547	1,583	213	20	1,816	−11,958	45,404
1987	62,631	1,820	135	15	1,970	−12,017	52,584
Difference	7,084	237	−78	−5	0	−59	7,180
Average:							
1979	25,690	1,822	406	187	2,415	−4,530	23,574
1987	27,156	2,003	328	157	2,488	−4,488	25,156
Difference	1,466	181	−78	−30	73	42	1,582

TABLE 46.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, FAMILIES WITH CHILDREN, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	6,777	862	1,667	1,188	3,716	−371	10,123
1987	4,943	645	1,695	1,265	3,605	−271	8,277
Difference	−1,834	−217	28	77	−111	100	−1,846
Second:							
1979	20,132	946	508	380	1,834	−2,269	19,697
1987	18,273	927	389	285	1,601	−1,979	17,895
Difference	−1,859	−19	−119	−95	−233	290	−1,802
Middle:							
1979	29,950	818	259	140	1,217	−4,337	26,830
1987	30,189	737	164	106	1,007	−4,228	26,968
Difference	239	−81	−95	−34	−210	109	138
Fourth:							
1979	39,869	683	233	88	1,004	−6,589	34,284
1987	42,257	658	124	55	837	−6,547	36,547
Difference	2,388	−25	−109	−33	−167	42	2,263
Highest:							
1979	62,553	636	143	64	842	−12,556	50,839
1987	71,203	555	78	39	672	−13,155	58,720
Difference	8,650	−81	−65	−25	−170	−599	7,881

TABLE 46.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, FAMILIES WITH CHILDREN, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Average:							
1979	31,856	789	561	371	1,721	−5,223	28,354
1987	33,373	704	490	350	1,544	−5,236	29,681
Difference	1,517	−85	−71	−21	−177	−13	1,327

TABLE 47.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, MARRIED COUPLES WITH CHILDREN, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	13,280	870	557	620	2,047	−1,102	14,224
1987	12,174	763	562	599	1,924	−1,046	13,052
Difference	−1,106	−107	5	−21	−123	56	−1,172
Second:							
1979	25,927	636	216	169	1,020	−3,441	23,506
1987	25,924	659	157	127	943	−3,444	23,423
Difference	−3	23	−59	−42	−77	−3	−83
Middle:							
1979	34,222	535	184	100	820	−5,315	29,727
1987	36,015	488	86	68	642	−5,354	31,303
Difference	1,793	−47	−98	−32	−178	−39	1,576
Fourth:							
1979	43,590	452	164	71	687	−7,489	36,789
1987	47,184	463	96	48	607	−7,612	40,179
Difference	3,594	11	−68	−23	−80	−123	3,390
Highest:							
1979	66,015	439	123	59	622	−13,593	53,044
1987	76,889	328	67	37	432	−14,547	62,774
Difference	10,874	−111	−56	−22	−190	−954	9,730
Average:							
1979	36,606	587	249	204	1,040	−6,189	31,457
1987	39,637	541	193	176	910	−6,401	34,146
Difference	3,031	−46	−56	−28	−130	−212	2,689

TABLE 48.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, SINGLE MOTHERS WITH CHILDREN, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	1,543	359	1,656	1,253	3,268	−49	4,763
1987	1,157	219	1,409	1,321	2,949	−57	4,049
Difference	−386	−140	−247	68	−319	−8	−714
Second:							
1979	3,449	654	3,688	2,018	6,359	−122	9,686
1987	2,328	527	3,061	2,025	5,613	−97	7,844
Difference	−1,121	−127	−627	7	−746	25	−1,842
Middle:							
1979	8,724	1,098	2,082	1,312	4,492	−473	12,743
1987	7,342	891	2,008	1,096	3,995	−337	11,000
Difference	−1,382	−207	−74	−216	−497	−136	−1,743
Fourth:							
1979	16,199	1,384	680	525	2,588	−1,633	17,154
1987	16,245	973	495	283	1,751	−1,600	16,396
Difference	46	−411	−185	−242	−837	33	−758
Highest:							
1979	28,665	2,088	522	181	2,790	−3,929	27,526
1987	33,123	1,154	191	92	1,437	−4,579	29,981
Difference	4,458	−934	−331	−89	−1,353	−650	2,455
Average:							
1979	11,716	1,116	1,726	1,057	3,899	−1,241	14,375
1987	12,039	753	1,433	964	3,150	−1,335	13,854
Difference	323	−363	−293	−93	−749	−94	−521

TABLE 49.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, NONELDERLY CHILDLESS UNITS, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	4,139	791	525	149	1,464	−342	5,261
1987	3,767	705	496	128	1,329	−360	4,736
Difference	−372	−86	−29	−21	−135	−18	−525
Second:							
1979	13,549	982	225	47	1,255	−1,860	12,944
1987	13,381	988	169	28	1,185	−1,874	12,692
Difference	−168	6	−56	−19	−70	−14	−252

TABLE 49.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, NONELDERLY CHILDLESS UNITS, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Middle:							
1979	22,670	829	176	20	1,025	−3,868	19,826
1987	23,442	829	129	9	967	−3,821	20,588
Difference	772	0	−47	−11	−58	47	762
Fourth:							
1979	34,208	734	220	11	966	−6,625	28,548
1987	36,467	664	100	5	769	−6,544	30,692
Difference	2,259	−70	−120	−6	−197	81	2,144
Highest:							
1979	60,291	598	202	5	804	−13,990	47,106
1987	67,213	520	107	7	634	−13,755	54,092
Difference	6,922	−78	−95	2	−170	235	6,986
Average:							
1979	26,971	787	270	47	1,104	−5,337	22,738
1987	28,854	741	201	35	977	−5,271	24,560
Difference	1,883	−46	−69	−12	−127	66	1,822

TABLE 50.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ELDERLY CHILDLESS UNITS, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Lowest:							
1979	432	3,426	546	149	4,121	−9	4,544
1987	525	3,872	488	193	4,553	−13	5,065
Difference	93	446	−58	44	432	−4	521
Second:							
1979	1,571	5,567	602	240	6,409	−32	7,948
1987	2,061	6,452	366	225	7,043	−61	9,043
Difference	490	885	−236	−15	634	−29	1,095
Middle:							
1979	5,036	7,007	312	151	7,469	−157	12,338
1987	6,200	7,956	259	41	8,256	−263	14,193
Difference	1,174	949	−53	−110	787	−106	1,855
Fourth:							
1979	11,779	7,500	222	113	7,834	−855	18,758
1987	14,015	8,711	231	11	8,953	−1,088	21,880
Difference	2,236	1,211	9	−102	1,119	−233	3,122

TABLE 50.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ELDERLY CHILDLESS UNITS, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Highest:							
1979	34,891	7,098	327	14	7,439	−5,944	36,386
1987	39,735	8,491	311	10	8,812	−5,713	42,834
Difference	4,844	1,393	−16	−4	1,373	231	6,448
Average:							
1979	10,740	6,119	401	132	6,653	−1,399	15,994
1987	12,507	7,097	331	96	7,524	−1,428	18,603
Difference	1,767	978	−70	−36	871	−29	2,609

TABLE 51.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ALL FAMILIES WITH CHILDREN, BY RACE, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
				White			
Lowest:							
1979	8,421	800	1,104	683	2,587	−596	10,412
1987	6,728	609	1,156	815	2,580	−437	8,871
Difference	−1,693	−191	52	132	−7	159	−1,541
Second:							
1979	21,245	961	339	248	1,548	−2,653	20,139
1987	20,263	801	258	236	1,295	−2,452	19,106
Difference	−982	−160	−81	−12	−253	201	−1,033
Middle:							
1979	31,115	640	222	135	998	−4,728	27,385
1987	31,780	653	115	89	857	−4,652	27,985
Difference	665	13	−107	−46	−141	76	600
Fourth:							
1979	41,420	651	199	106	956	−6,977	35,400
1987	44,084	663	124	58	845	−6,953	37,976
Difference	2,664	12	−75	−48	−111	24	2,576
Highest:							
1979	67,016	774	182	85	1,042	−13,190	54,867
1987	75,578	610	84	48	742	−13,809	62,511
Difference	8,562	−164	−98	−37	−300	−619	7,644
Average:							
1979	33,843	765	409	251	1,425	−5,628	29,640
1987	35,686	668	347	249	1,264	−5,660	31,290

TABLE 51.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ALL FAMILIES WITH CHILDREN, BY RACE, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Difference	1,843	−97	−62	−2	−161	−32	1,650
				Nonwhite			
Lowest:							
1979	2,226	625	2,006	1,524	4,154	−78	6,303
1987	1,452	432	1,771	1,534	3,737	−77	5,112
Difference	−774	−193	−235	10	−417	1	−1,191
Second:							
1979	8,047	876	2,106	1,546	4,528	−519	12,057
1987	6,324	984	2,244	1,535	4,763	−347	10,740
Difference	−1,723	108	138	−11	235	172	−1,317
Middle:							
1979	15,556	1,241	1,428	1,241	3,910	−1,606	17,860
1987	16,489	993	838	637	2,468	−1,776	17,181
Difference	933	−248	−590	−604	−1,442	−170	−679
Fourth:							
1979	27,835	926	832	654	2,412	−3,852	26,395
1987	29,578	987	521	261	1,769	−4,001	27,346
Difference	1,743	61	−311	−393	−643	−149	951
Highest							
1979	50,543	950	640	225	1,816	−8,852	43,507
1987	59,987	991	334	95	1,420	−10,241	51,166
Difference	9,444	41	−306	−130	−396	−1,389	7,659
Average:							
1979	20,842	923	1,404	1,039	3,365	−2,982	21,225
1987	22,766	877	1,142	812	2,831	−3,288	22,309
Difference	1,924	−46	−262	−227	−534	−306	1,084

TABLE 52.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ELDERLY CHILDLESS UNITS, BY RACE, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
				White			
Lowest:							
1979	444	3,610	418	154	4,182	−6	4,620

TABLE 52.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ELDERLY CHILDLESS UNITS, BY RACE, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
1987	595	4,049	372	164	4,595	−9	5,181
Difference	151	449	−46	10	413	−3	561
Second:							
1979	2,009	5,512	471	196	6,180	−29	8,160
1987	2,471	6,508	239	168	6,915	−48	9,338
Difference	462	996	−232	−28	735	−19	1,178
Middle:							
1979	5,365	7,012	265	120	7,396	−170	12,591
1987	6,611	8,042	249	29	8,320	−278	14,653
Difference	1,246	1,030	−16	−91	924	−108	2,062
Fourth:							
1979	11,975	7,694	233	79	8,006	−897	19,084
1987	14,243	8,915	243	10	9,168	−1,089	22,322
Difference	2,268	1,221	10	−69	1,162	−192	3,238
Highest:							
1979	36,173	7,491	377	11	7,878	−6,215	37,836
1987	41,517	8,868	325	9	9,202	−6,028	44,691
Difference	5,344	1,377	−52	−2	1,324	187	6,855
Average:							
1979	11,193	6,263	353	111	6,727	−1,463	16,458
1987	13,087	7,279	285	76	7,640	−14,490	19,237
Difference	1,894	1,016	−68	−35	913	−27	2,779
				Nonwhite			
Lowest:							
1979	170	2,205	779	164	3,148	−8	3,310
1987	193	2,580	823	210	3,613	−7	3,799
Difference	23	375	44	46	465	1	489
Second:							
1979	585	3,513	996	409	4,918	−21	5,482
1987	314	4,225	795	534	5,554	−10	5,858
Difference	−271	712	−201	125	636	11	376
Middle:							
1979	1,454	4,509	1,324	418	6,251	−44	7,661
1987	1,734	5,366	967	526	6,859	−72	8,521
Difference	280	857	−357	108	608	−28	860
Fourth:							
1979	4,682	6,086	1,031	636	7,755	−255	12,182
1987	6,588	6,991	708	123	7,822	−401	14,009
Difference	1,906	905	−323	−516	67	−146	1,827
Highest:							
1979	23,457	6,809	414	96	7,319	−3,338	27,438
1987	26,087	7,655	528	28	8,211	−3,661	30,637

TABLE 52.—INCOME, TRANSFERS, AND TAXES IN 1987 DOLLARS, ELDERLY CHILDLESS UNITS, BY RACE, QUINTILES BASED ON POST-TAX INCOME PLUS FOOD AND HOUSING, 1979 AND 1987—Continued

Quintile	Pre-transfer income	Non-means-tested transfers	Means-tested cash transfers	Means-tested noncash transfers	All transfers	Taxes	Post-tax income plus transfers
Difference	2,630	846	114	−68	892	−323	3,199
Average:							
1979	6,070	4,623	909	345	5,877	−733	11,215
1987	6,983	5,363	765	285	6,413	−831	12,565
Difference	913	740	−144	−60	536	−98	1,350

THE DISTRIBUTION OF FEDERAL TAXES: 1977–1990

This section is based entirely upon two CBO studies: "The Changing Distribution of Federal Taxes: 1975–1990" issued in October, 1987 and "The Changing Distribution of Federal Taxes: A Closer Look at 1980" issued in July, 1988, plus unpublished tables. The reader is referred to those studies for greater detail about methodology.

Study methodology

In these CBO studies, combined Federal taxes include individual and corporate income taxes, social insurance payroll taxes, and excise taxes except for the windfall profit tax. The distribution of taxes is classified as progressive if the ratio of taxes to incomes (the effective tax rate) rises as incomes rise, regressive if the ratio falls as incomes rise, or proportional if the ratio is the same at all income levels.

The results of any study of the distribution of tax liabilities necessarily depend on assumptions that are subject to challenge. There is no definitive way in which to assign combined federal taxes to particular family income groups. Nor is there a definitive way in which to measure family incomes.

Although Federal tax payments are made by persons, corporations, and noncorporate employers, the economic burden of all taxes ultimately rests with families and individuals. Economists speak of the reduction in family income or purchasing power as the incidence of a tax. The incidence of some taxes, particularly the corporate income tax, has not been estimated conclusively, and remains a controversial issue. The following incidence assumptions were used in the CBO studies.

—The individual income tax burden is attributed to the families who directly pay the tax. The study assumes no shifting of the tax among families.

—The social insurance payroll tax burden is allocated to employee compensation.

- The corporate income tax burden is allocated in two different ways. In alternative one, the burden is allocated to capital income. This is the standard treatment if the supply of investment capital is fixed, as in an economy where the rate of saving is relatively constant and domestic capital markets are isolated from international markets. In alternative two, the burden allocated to employee compensation. This is an appropriate treatment if the supply of investment capital is highly responsive to taxes and other prices, as in a world economy with interdependent capital markets. Because capital income is a larger share of the total income of higher income families than of moderate and lower income families, the corporate tax is more progressive with the first alternative than the second.
- The excise tax burden is allocated in proportion to expenditures on the taxed goods and services.

The CBO studies do not attempt to allocate the distributional effects of general government spending. In comparing the distribution of Federal taxes in different years, shifts in the distribution of general expenditures between those years are ignored. The CBO studies also separate the distribution effects of taxes from the effects of expenditures specifically related to those taxes. Social Security revenues are thus implicitly treated as independent of benefit payments.

Family income is measured on a cash receipt basis, a definition generally consistent with the measure of income used by the federal tax system. Family income equals the sum of wages, salaries, self-employment income, and personal rents, interest, and dividends, plus cash pension benefits and realized capital gains. Family income excludes accrued but unrealized capital gains, employer contributions to pension funds, in-kind government transfer payments, and other noncash income. Because income is measured before reductions for any Federal taxes, employer contributions for Federal social insurance and Federal corporate profits taxes are added to family income. Family incomes are put in constant dollars by the CPI-U price index.

The distribution of effective tax rates can change between years for three reasons: (1) changes in the tax law, (2) changes in the tax law cause families to adjust their economic behavior, thereby changing the level and distribution of incomes, and (3) incomes change for reasons independent of the tax law. It is nearly impossible to distinguish between income changes caused by reason 2 versus reason 3. By substituting constant income levels, the study attemps to isolate the effect of tax law changes, as opposed to income changes, on effective tax rates. Effective tax rates are computed for 1988 incomes using 1977, 1980, and 1984 tax laws adjusted to 1980 levels.

Adjusted 1980 law is 1980 law with all parameters (for example, personal exemptions amounts, standard deductions, tax-bracket boundaries, maximum taxable earnings for the Social Security payroll tax) inflated by the growth in average incomes between 1980 and 1988.

Tax law changes include specific changes such as lowering individual income tax rates or raising Social Security payroll tax rates as well as implicit changes such as increases in effective individual income tax rates as a result of rising real incomes (or rising nominal incomes in years before 1985).

Data sources

Distributions of family income for 1977, 1980, 1984, and 1985, and the projected distribution in 1988 and 1990 are based on data from four sources. The primary source is the March Current Population Survey (CPS) for 1978, 1981, 1985, and 1986. The CPS is a monthly survey of approximately 60,000 families, conducted by the Bureau of the Census. Each March, the survey collects detailed information on family characteristics and family income in the previous calendar year. The reported data on income from taxable sources from the CPS files were adjusted for consistency with reported income from Statistics of Income (SOI) samples for calendar years 1977, 1980, 1984 and 1985. The SOI is an extensive annual sample of actual individual income tax returns. Data on consumer expenditures were taken from the 1980/1981, 1984, and 1985 Consumer Expenditure Survey (CES) Interview Surveys. The CES Interview Survey is a quarterly panel survey conducted by the Bureau of Labor Statistics. The survey collects detailed data on household expenditures over a 12-month period. The 1980/1981 CES data were adjusted to 1977 levels by changes in per capita expenditures of certain types as reported in the National Income and Product Accounts. Each of the 1984 files was adjusted to 1988 using actual growth rates in population, income, and expenditures through 1986, and projected growth rates for 1987 and 1988. A similar procedure was used to construct 1990 files from 1985 data.

Many people incur "paper losses" for tax purposes. In order to approximate better the economic income of families, rental losses and most partnership losses were not subtracted from family income. All losses of sole proprietorships were allowed.

Reported pre-tax family incomes were adjusted to include the amount of the employer share of the Social Security payroll tax, the unemployment insurance payroll tax, and the corporate income tax. The unemployment insurance payroll tax and the employer share of the Social Security payroll tax were allocated to the employee on whose behalf the taxes were paid.

The corporate income tax was assigned to incomes in two ways, consistent with the two tax incidence assumptions. In the first alternative, all wages were increased by the ratio of corporate income taxes to total wages. In the second alternative, capital income (consisting of positive rents, interest dividends, and an adjusted amount of realized capital gains) was increased by the ratio of corporate taxes to the sum of capital income. (Total adjusted capital gains in a particular year are computed as a fixed percentage of national income. Each family's share of adjusted gains is assumed to be the same as its share of realized gains. This procedure prevents assignment of a disproportionate share of the corporation tax to capital gains in those years when realizations are especially high.)

Study results

To summarize in broad terms, between 1977 and 1980 progressivity remained about the same. Between 1980 and 1984 tax levels were increased for the poorest families (particularly the bottom decile) and taxes were reduced for the higher income families. However, between 1984 and 1988 the Federal Tax Code became more progressive but remained less progressive than in 1977 or 1980.

In many ways, table 53 summarizes the entire study. Table 53 shows changes in income and tax rates for the entire population, divided into the richest 10 percent, the next 40 percent, and the bottom 50 percent of the population. Among the 10 percent of families with the highest income, average real income increased from $106,700 to $122,100 between 1977 and 1988, a 14 percent increase. The effective income tax rate, which is simply individual income taxes divided by income, increased from 17.0 to 18.0 percent between 1977 and 1980, then fell sharply to 15.1 percent in 1984, and then increased slightly to 15.5 percent in 1988.

Total effective tax rates for the highest 10 percent income families also decreased from 1977 to 1988, from 29.5 in 1977 to 26.6 in 1988, with the sharpest decline between 1980 and 1984, followed by a slight increase between 1984 and 1988. Total effective rates fell by 10 percent between 1977 and 1988.

For the 10 percent highest income families, the average per family after-tax income increased from $73,730 (71.1 percent of $103,700) in 1980 to $89,620 (73.4 percent of $122,100). To separate tax law changes from changes in the level and distribution of income, the last column computes effective tax rates using 1988 levels and distribution of income. As the last column shows, only a small proportion of this increase (roughly $1,200) is due to changes in tax law. There are other economic forces which are influencing the level and distribution of income and these forces far outweigh the tax changes. Doing a similar computation from table 54 which assumes a different incidence of the corporate tax produces an almost identical result. Of the average per family increase of $16,000 in after-tax income, only $1,075 can be attributed to changes in tax law.

The bottom portion of table 53 presents a substantially different picture for the poorest 50 percent of families. Average income declined from $13,460 in 1977 to $12,504 in 1988, a 7 percent decline. Effective income tax rates increased between 1977 and 1980 and then fell in 1984 and 1988, for a net decrease of 5 percent. Total effective tax rates increased 3 percent, from 14.8 percent in 1977 to 15.3 percent in 1988. At constant 1988 income levels, however, total taxes increased from 13.8 in percent in 1977 to 15.3 percent in 1988, an 11 percent increase in rates. Thus, of the total decline in after-tax income from $11,468 in 1977 to $10,591 in 1988, approximately $200 of this decline is due to increased Federal taxes.

Table 54 is identical to table 53 except it assumes that the corporate income tax is paid by labor income.

Tables 55–66 are based on unpublished tables from CBO which show the change in tax distributions for calendar years 1977, 1980, 1985, and 1990. The income in these tables is shown in 1988 dollars. There are a few minor technical differences which explain why the 1977 and 1980 numbers reported in tables 53 and 54 change by one-tenth, or in most cases not at all. The 1990 simulation includes the impact of tax burdens of the supplemental premium enacted in the

Medicare Catastrophic Coverage Act of 1988. As table 55 indicates, the effective total tax rate for the richest 10 percent of families increased from 24.8 percent in 1985 to 27.9 percent in 1990. This is a 12.6 percent increase.

Table 55 also illustrates an important difference between effective income tax rates and share of income taxes received. Although the effective income tax rate declined from 18.0 percent of family income in 1980 to 15.3 percent in 1985 for the richest 10 percent of families, the share of income taxes paid by these families increased from 48.1 percent to 51.3 percent. This result is due solely to the fact that average family income increased 14 percent in real terms for these families and the share of all income increased from 32.9 percent to 35.7 percent.

Tables 57 through 58 present a more detailed analysis of average income and effective Federal tax rates for each population decile. From 1980 to 1990, for the top 1 percent of families, total effective tax rates declined by 11 percent under the assumption that corporate income taxes are allocated to capital income and they declined by 9 percent under the assumption that the corporate income tax is allocated to labor income.

Table 59 presents effective tax rates for the different types of Federal taxes by population decile.

Table 60 shows the share of pre- and post-tax family income received by each family income decile and by the 5 percent and 1 percent of families with the highest incomes, and the share of Federal taxes paid by each family income group under the allocation of the corporate income tax to labor income. The table shows that the share of taxes paid by the highest income decile is projected to rise from 1980 to 1990 despite the drop in that group's effective tax rate over the same period. The increase in the share of taxes paid by the highest income group results from a growth of nearly 5 percentage points in their share of pretax income between 1980 and 1990, more than offsetting the decline in their effective tax rate.

Tables 61 and 62 present 1990 average income and effective tax rates for different types of taxes, for all families, and three major family types. Quintiles in this analysis are defined on the basis of family cash income as described earlier in this subsection. The income quintiles for the three demographic groups, families with children, nonelderly childless, and elderly childless are not resorted into quintiles for their family type. Thus, if a family falls in the fourth quintile among all families, it remains in the fourth quintile for its particular family type.

Tables 63–66 present the changes in average income and total effective tax rates for the four types of families.

TABLE 53.—COMPARISON OF BEFORE-TAX INCOME AND TAXES PAID IN 1977, 1984 AND 1988 FOR THE RICHEST 10 PERCENT, THE NEXT 40 PERCENT, AND THE POOREST 50 PERCENT OF U.S. FAMILIES

[Corporate income tax allocated to capital income]

	Average income (in 1987 dollars)	Effective income tax rate	Effective total tax rate	Constant 1988 incomes effective total tax rate
Top 10 percent:				
1977	$106,700	17.0	29.5	26.1
1980	$103,700	18.0	28.9	27.6
1984	$115,000	15.1	24.8	24.7
1988	$122,100	15.5	26.6	26.6
Percent change:				
1977–88	14	−9	−10	2
1980–88	18	−14	−8	−4
1984–88	6	3	7	8
Next 40 percent:				
1977	$40,468	10.1	21.4	20.3
1980	$37,988	11.4	22.7	21.8
1984	$38,820	9.6	21.6	21.2
1988	$40,015	9.0	22.1	22.1
Percent change:				
1977–88	−1	−11	3	9
1980–88	5	−21	−3	1
1984–88	3	−6	2	4
Bottom 50 percent [1]:				
1977	$13,460	3.7	14.8	13.8
1980	$12,293	4.5	14.5	14.4
1984	$12,094	4.1	15.0	15.2
1988	$12,504	3.5	15.3	15.3
Percent change:				
1977–88	−7	−5	3	11
1980–88	2	−21	6	6
1984–88	3	−14	2	1

[1] Excludes families with zero or negative incomes.

Source: Congressional Budget Office tax simulation models.

TABLE 54.—COMPARISON OF BEFORE-TAX INCOME AND TAXES PAID IN 1977, 1984 AND 1988 FOR THE RICHEST 10 PERCENT, THE NEXT 40 PERCENT, AND THE POOREST 50 PERCENT OF U.S. FAMILIES

[Corporate income tax allocated to labor income]

	Average income (in 1987 dollars)	Effective income tax rate	Effective total tax rate	Constant 1988 incomes effective total tax rate
Top 10 percent:				
1977	$102,500	17.8	26.7	24.4
1980	$100,800	18.7	27.1	25.9
1984	$113,000	15.3	23.6	23.7
1988	$119,400	15.8	25.0	25.0
Percent change:				
1977–88	16	−11	−6	2
1980–88	18	−16	−8	−3
1984–88	6	3	6	5
Next 40 percent:				
1977	$41,418	9.9	23.3	21.5
1980	$38,610	11.2	23.9	23.0
1984	$39,243	9.5	22.5	22.1
1988	$40,570	8.9	23.2	23.2
Percent change:				
1977–88	−2	−10	0	8
1980–88	5	−20	−3	1
1984–88	3	−6	3	5
Bottom 50 percent: [1]				
1977	$13,556	3.5	15.0	14.2
1980	$12,382	4.3	14.8	14.7
1984	$12,160	4.0	15.2	15.4
1988	$12,594	3.3	15.5	15.5
Percent change:				
1977–88	−7	−4	4	9
1980–88	2	−23	5	5
1984–88	4	−17	2	1

[1] Excludes families with zero or negative incomes.

Source: Congressional Budget Office tax simulation models.

TABLE 55.—COMPARISON OF BEFORE-TAX INCOME AND TAXES PAID IN 1977, 1980, 1985, AND 1990 FOR THE RICHEST 10 PERCENT, THE NEXT 40 PERCENT, AND THE POOREST 50 PERCENT OF U.S. FAMILIES

[Corporate income tax allocated to capital income]

	Average income (in 1988 dollars)	Effective income tax rate	Effective total tax rate	Share of income received	Share of income taxes paid	Share of total taxes paid
Top 10 percent:						
1977	$111,100	17.0	29.5	31.9	48.9	41.3
1980	$107,900	18.0	28.9	32.9	48.1	40.8
1985	$123,200	15.3	24.8	35.7	51.3	40.7
1990	$133,200	16.6	27.9	36.0	53.4	42.4
Percent change:						
1977–90	19.9	−2.5	−5.4	12.7	9.2	2.5
1980–90	23.4	−8.3	−3.7	9.4	11.0	3.7
1985–90	8.1	7.9	12.6	0.7	4.2	4.2
Next 40 percent:						
1977	$42,130	10.1	21.4	48.4	44.3	45.5
1980	$39,550	11.4	22.7	48.2	44.7	47.0
1985	$40,450	9.5	21.6	46.9	41.8	46.6
1990	$43,130	9.7	23.1	46.6	40.6	45.5
Percent change:						
1977–90	2.4	−4.3	7.9	−3.7	−8.4	−0.2
1980–90	9.1	−15.1	1.8	−3.3	−9.3	−3.2
1985–90	6.6	2.0	6.9	−0.8	−2.9	−2.5
Bottom 50 percent: [1]						
1977	$14,250	3.7	14.8	20.0	6.7	13.0
1980	$13,070	4.6	14.6	19.3	7.1	12.1
1985	$12,840	4.1	15.1	18.0	6.9	12.4
1990	$13,680	3.7	15.9	17.9	6.0	12.0
Percent change:						
1977–90	−4.0	−0.5	7.1	−10.3	−11.3	−7.6
1980–90	4.7	−18.5	8.7	−7.1	−16.3	−0.7
1985–90	6.5	−9.5	5.3	−0.3	−13.4	−3.5

[1] Excludes families with zero or negative incomes.

Source: Congressional Budget Office tax simulation models.

TABLE 56.—COMPARISON OF BEFORE-TAX INCOME AND TAXES PAID IN 1977, 1980, 1985, AND 1990 FOR THE RICHEST 10 PERCENT, THE NEXT 40 PERCENT, AND THE POOREST 50 PERCENT OF U.S. FAMILIES

[Corporate income tax allocated to labor income]

	Average income (in 1988 dollars)	Effective income tax rate	Effective total tax rate	Share of income received	Share of income taxes paid	Share of total taxes paid
Top 10 percent:						
1977	$106,700	17.8	26.7	30.6	49.3	35.9
1980	$105,000	18.7	27.1	32.0	48.4	37.2
1985	$121,400	15.6	23.8	35.2	51.3	38.5
1990	$130,400	16.9	26.4	35.2	53.3	39.3
Percent change:						
1977–90	22.2	−5.4	−1.0	14.9	8.0	9.3

TABLE 56.—COMPARISON OF BEFORE-TAX INCOME AND TAXES PAID IN 1977, 1980, 1985, AND 1990 FOR THE RICHEST 10 PERCENT, THE NEXT 40 PERCENT, AND THE POOREST 50 PERCENT OF U.S. FAMILIES—Continued

[Corporate income tax allocated to labor income]

	Average income (in 1988 dollars)	Effective income tax rate	Effective total tax rate	Share of income received	Share of income taxes paid	Share of total taxes paid
1980–90	24.2	−9.6	−2.6	10.2	10.1	5.6
1985–90	7.4	8.4	11.2	0	3.9	2.1
Next 40 percent:						
1977	$43,110	9.9	23.3	49.5	44.3	50.7
1980	$40,190	11.2	23.9	48.9	44.7	50.3
1985	$40,810	9.5	22.4	47.4	41.9	48.7
1990	$43,700	9.6	24.2	47.2	40.8	48.2
Percent change:						
1977–90	1.4	−2.7	3.8	−4.7	−7.8	−4.9
1980–90	8.7	−14.3	1.0	−3.6	−8.6	−4.2
1985–90	7.1	1.9	8.2	−0.4	−2.7	−1.0
Bottom 50 percent: [1]						
1977	$14,350	3.5	15.0	20.1	6.4	13.3
1980	$13,170	4.4	14.9	19.4	6.9	12.4
1985	$12,890	4.0	15.2	18.0	6.8	12.6
1990	$13,780	3.6	16.2	18.1	5.9	12.3
Percent change:						
1977–90	−4.0	3.1	7.5	−10.2	−7.9	−7.2
1980–90	4.6	−17.5	8.7	−7.1	−15.3	−0.6
1985–90	6.9	−9.6	6.3	0.1	−13.3	−2.2

[1] Excludes families with zero or negative incomes.

Source: Congressional Budget Office tax simulation models.

TABLE 57.—AVERAGE INCOME LEVEL AND EFFECTIVE FEDERAL TAX RATES IN EACH FAMILY DECILE BY YEAR

[Corporate income tax allocated to capital income]

Decile [1]	1977	1980	1985	1990	Percent change		
					1977–90	1980–90	1985–90
Average income level (in 1988 dollars)							
First [2]	4,277	3,852	3,568	3,805	−11.0	−1.2	6.7
Second	8,663	7,982	7,717	8,251	−4.8	3.4	6.9
Third	13,610	12,530	12,230	13,110	−3.7	4.6	7.2
Fourth	18,980	17,240	17,010	18,200	−4.1	5.6	7.0
Fifth	24,520	22,380	22,070	23,580	−3.8	5.4	6.9
Sixth	30,430	28,100	27,620	29,490	−3.1	5.0	6.8
Seventh	36,880	34,370	34,620	36,890	0.0	7.3	6.5
Eighth	44,820	42,050	43,370	46,280	3.3	10.1	6.7
Ninth	56,360	53,660	56,190	59,860	6.2	11.6	6.5
Tenth	111,100	107,900	123,200	133,200	19.9	23.4	8.2
Top 5 percent	149,500	146,000	172,100	187,400	25.4	28.3	8.9

TABLE 57.—AVERAGE INCOME LEVEL AND EFFECTIVE FEDERAL TAX RATES IN EACH FAMILY DECILE BY YEAR—Continued

[Corporate income tax allocated to capital income]

Decile [1]	1977	1980	1985	1990	Percent change 1977–90	Percent change 1980–90	Percent change 1985–90
Top 1 percent	319,100	321,400	415,700	463,800	45.4	44.3	11.6
All deciles [3]	34,830	32,850	34,480	37,050	6.4	12.8	7.4
Effective Federal tax rates							
First [2]	8.3	6.9	9.8	9.6	16.4	39.0	−1.5
Second	9.1	7.8	8.7	9.4	3.6	20.4	8.8
Third	12.3	12.1	13.6	14.1	14.5	16.3	3.5
Fourth	16.1	16.2	16.0	16.9	4.8	4.3	5.2
Fifth	18.2	18.3	18.1	19.2	5.3	4.8	6.2
Sixth	19.6	20.3	19.5	20.8	6.1	2.4	7.0
Seventh	20.9	21.8	20.5	22.1	5.8	1.4	7.6
Eighth	21.7	23.1	22.0	23.4	8.0	1.5	6.5
Ninth	22.6	24.3	23.1	24.6	9.2	1.6	6.8
Tenth	29.5	28.9	24.8	27.9	−5.4	−3.7	12.6
Top 5 percent	32.2	30.7	25.2	28.8	−10.5	−6.0	14.6
Top 1 percent	39.2	34.6	26.3	30.8	−21.3	−10.9	17.1
All deciles [3]	22.8	23.3	21.7	23.7	4.0	1.6	8.8

[1] Ranked by size of family income.
[2] Excludes families with zero or negative incomes.
[3] Includes families with zero or negative incomes not shown separately.

Source: Congressional Budget Office tax simulation models.

TABLE 58.—AVERAGE INCOME LEVEL AND EFFECTIVE FEDERAL TAX RATES IN EACH FAMILY DECILE BY YEAR

[Corporate income tax allocated to labor income]

Decile [1]	1977	1980	1985	1990	Percent change 1977–90	Percent change 1980–90	Percent change 1985–90
Average income level (in 1988 dollars)							
First [2]	4,273	3,856	3,577	3,821	−10.6	−0.9	6.8
Second	8,657	7,979	7,726	8,264	−4.5	3.6	7.0
Third	13,650	12,580	12,270	13,190	−3.3	4.9	7.5
Fourth	19,150	17,400	17,100	18,350	−4.2	5.5	7.3
Fifth	24,820	22,630	22,200	23,800	−4.1	5.2	7.2
Sixth	30,980	28,520	27,830	29,840	−3.7	4.6	7.2
Seventh	37,820	34,950	34,870	37,290	−1.4	6.7	7.0
Eighth	46,020	42,860	43,800	46,970	2.1	9.6	7.2
Ninth	57,640	54,430	56,740	60,720	5.4	11.6	7.0
Tenth	106,700	105,000	121,400	130,400	22.2	24.2	7.4
Top 5 percent	139,800	139,700	168,100	181,100	29.6	29.6	7.8

TABLE 58.—AVERAGE INCOME LEVEL AND EFFECTIVE FEDERAL TAX RATES IN EACH FAMILY DECILE BY YEAR—Continued

[Corporate income tax allocated to labor income]

Decile [1]	1977	1980	1985	1990	Percent change		
					1977–90	1980–90	1985–90
Top 1 percent	280,500	295,000	397,900	435,600	55.3	47.6	9.5
All deciles [3]	34,830	32,850	34,480	37,050	6.4	12.8	7.4
Effective Federal tax rates							
First [2]	8.0	6.6	9.6	9.6	19.3	45.9	0.3
Second	8.7	7.4	8.7	9.4	8.5	26.6	7.5
Third	12.0	12.2	13.5	14.0	16.7	15.1	4.2
Fourth	16.2	16.5	16.4	17.1	5.7	3.5	4.4
Fifth	19.1	18.9	18.3	19.9	4.1	5.0	8.8
Sixth	21.0	21.4	19.9	21.6	3.1	1.2	8.5
Seventh	23.0	23.0	21.1	23.0	0.1	0.0	8.9
Eighth	23.6	24.5	22.9	24.7	4.3	0.5	7.8
Ninth	24.5	25.4	23.9	25.8	5.4	1.5	8.0
Tenth	26.7	27.1	23.8	26.4	−1.0	−2.6	11.2
Top 5 percent	27.5	27.7	23.4	26.4	−4.3	−4.8	12.6
Top 1 percent	30.9	28.9	23.1	26.4	−14.6	−8.9	14.3
All deciles [3]	22.8	23.3	21.7	23.7	4.0	1.6	8.8

[1] Ranked by size of family income.
[2] Excludes families with zero or negative incomes.
[3] Includes families with zero or negative incomes not shown separately.

Source: Congressional Budget Office tax simulation models.

TABLE 59.—EFFECTIVE FEDERAL TAX RATES BY FAMILY DECILE

[Corporate income tax allocated to labor income]

Decile [1]	Individual income tax	Social insurance tax	Corporate income tax	Excise tax	All taxes
1977					
First [2]	−0.4	3.2	1.5	3.7	8.0
Second	−.1	3.7	1.7	3.3	8.7
Third	1.5	5.7	2.7	2.1	12.0
Fourth	4.0	6.9	3.3	2.0	16.2
Fifth	6.1	7.7	3.8	1.5	19.1
Sixth	7.6	8.0	4.0	1.4	21.0
Seventh	9.0	8.3	4.4	1.3	23.0
Eighth	10.2	7.8	4.4	1.2	23.6
Ninth	11.5	7.4	4.5	1.1	24.5
Tenth	17.8	4.5	3.6	.7	26.7
Top 5 percent	20.3	3.5	3.2	.6	27.5
Top 1 percent	26.7	1.5	2.3	.3	30.9

TABLE 59.—EFFECTIVE FEDERAL TAX RATES BY FAMILY DECILE—Continued

[Corporate income tax allocated to labor income]

Decile [1]	Individual income tax	Social insurance tax	Corporate income tax	Excise tax	All taxes
All deciles [3]	11.1	6.5	3.9	1.3	22.8
1980					
First [2]	−0.5	3.2	1.1	2.8	6.6
Second	.2	3.9	1.3	2.1	7.4
Third	2.4	6.1	2.0	1.6	12.2
Fourth	5.2	7.4	2.6	1.3	16.5
Fifth	7.0	7.9	2.8	1.2	18.9
Sixth	8.9	8.4	3.1	1.0	21.4
Seventh	10.2	8.7	3.2	.9	23.0
Eighth	11.4	8.9	3.3	.9	24.5
Ninth	12.9	8.4	3.3	.8	25.4
Tenth	18.7	5.2	2.7	.5	27.1
Top 5 percent	20.8	4.0	2.5	.4	27.7
Top 1 percent	25.2	1.6	1.8	.3	28.9
All deciles [3]	12.3	7.2	2.9	.9	23.3
1985					
First [2]	−0.6	4.7	0.9	4.5	9.6
Second	.3	5.1	1.0	2.3	8.7
Third	2.6	7.5	1.5	1.8	13.5
Fourth	4.6	8.5	1.7	1.5	16.4
Fifth	6.2	8.9	1.9	1.3	18.3
Sixth	7.4	9.4	2.0	1.1	19.9
Seventh	8.5	9.6	2.1	1.0	21.1
Eighth	9.6	10.2	2.2	.9	22.9
Ninth	10.9	9.9	2.3	.8	23.9
Tenth	15.6	5.9	1.8	.5	23.8
Top 5 percent	16.9	4.5	1.6	.4	23.4
Top 1 percent	19.8	1.9	1.1	.3	23.1
All deciles [3]	10.7	8.2	1.9	1.0	21.7
1990					
First [2]	−1.0	5.5	1.5	3.6	9.6
Second	−.2	5.9	1.6	2.0	9.4
Third	1.9	8.3	2.3	1.6	14.0
Fourth	4.1	9.1	2.6	1.3	17.1
Fifth	6.1	9.8	2.9	1.1	19.9
Sixth	7.6	10.1	3.0	1.0	21.6
Seventh	8.8	10.3	3.1	.8	23.0
Eighth	9.7	10.9	3.3	.7	24.7
Ninth	11.1	10.6	3.4	.7	25.8
Tenth	16.9	6.3	2.8	.4	26.4

TABLE 59.—EFFECTIVE FEDERAL TAX RATES BY FAMILY DECILE—Continued

[Corporate income tax allocated to labor income]

Decile [1]	Individual income tax	Social insurance tax	Corporate income tax	Excise tax	All taxes
Top 5 percent	18.6	4.9	2.5	.4	26.4
Top 1 percent	22.1	2.0	2.0	.3	26.4
All deciles [3]	11.1	8.8	2.9	.8	23.7
1990 (corporate income tax allocated to capital income)					
First [2]	−1.1	6.1	1.0	3.6	9.6
Second	−.2	6.2	1.4	2.1	9.4
Third	2.1	8.9	1.5	1.6	14.1
Fourth	4.3	9.6	1.7	1.3	16.9
Fifth	6.2	10.1	1.8	1.1	19.2
Sixth	7.6	10.5	1.8	1.0	20.8
Seventh	8.8	10.5	2.0	.9	22.1
Eighth	9.7	11.1	1.9	.8	23.4
Ninth	11.3	10.6	2.0	.7	24.6
Tenth	16.6	6.0	4.9	.4	27.9
Top 5 percent	18.0	4.5	6.0	.4	28.8
Top 1 percent	20.7	1.8	8.0	.3	30.8
All deciles [3]	11.1	8.8	2.9	.8	23.7

[1] Ranked by size of family income.
[2] Excludes families with zero or negative incomes.
[3] Includes families with zero or negative incomes not shown separately.

Source: Congressional Budget Office tax simulation models.

TABLE 60.—DISTRIBUTION OF FAMILY INCOME AND OF FEDERAL TAX PAYMENTS BY FAMILY DECILE

[Corporate income tax allocated to labor income]

Decile [1]	Family income		Federal taxes paid				
	Before tax	After tax	Individual income	Social insurance	Corporate income	Excise	All taxes
1977							
First [2]	1.1	1.3	.0	0.5	0.4	3.2	0.4
Second	2.5	2.9	.0	1.4	1.1	6.6	.9
Third	3.9	4.5	.5	3.4	2.7	6.5	2.1
Fourth	5.5	6.0	2.0	5.8	4.7	8.5	3.9
Fifth	7.1	7.5	3.9	8.4	6.9	8.7	6.0
Sixth	8.9	9.1	6.1	10.8	9.2	10.2	8.2
Seventh	10.9	10.8	8.8	13.8	12.2	11.2	11.0
Eighth	13.2	13.1	12.1	15.8	15.1	12.4	13.7

TABLE 60.—DISTRIBUTION OF FAMILY INCOME AND OF FEDERAL TAX PAYMENTS BY FAMILY DECILE—Continued

[Corporate income tax allocated to labor income]

Decile [1]	Family income		Federal taxes paid				
	Before tax	After tax	Individual income	Social insurance	Corporate income	Excise	All taxes
Ninth	16.6	16.2	17.2	18.7	19.1	14.3	17.8
Tenth	30.6	29.1	49.3	21.2	28.4	17.9	35.9
Top 5 percent	20.1	18.9	36.9	10.6	16.5	9.7	24.3
Top 1 percent	8.1	7.2	19.5	1.8	4.8	2.1	10.9
All deciles [3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1980							
First [2]	1.0	1.2	.0	.4	.4	3.1	.3
Second	2.4	2.9	.0	1.3	1.1	5.6	.8
Third	3.8	4.4	.8	3.3	2.7	6.9	2.0
Fourth	5.3	5.8	2.3	5.4	4.6	7.9	3.8
Fifth	6.9	7.3	3.9	7.6	6.6	9.2	5.6
Sixth	8.7	8.9	6.3	10.2	9.1	10.0	8.0
Seventh	10.6	10.7	8.8	12.9	11.7	11.1	10.5
Eighth	13.1	12.8	12.1	16.2	14.9	12.7	13.8
Ninth	16.6	16.1	17.4	19.3	18.9	14.3	18.1
Tenth	32.0	30.4	48.4	23.2	29.9	18.8	37.2
Top 5 percent	21.3	20.0	35.9	11.9	18.1	10.5	25.3
Top 1 percent	9.0	8.3	18.4	2.1	5.7	2.7	11.2
All deciles [3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1985							
First [2]	0.9	1.0	.0	.5	.4	4.1	.4
Second	2.2	2.6	.1	1.4	1.1	5.5	.9
Third	3.6	3.9	.9	3.3	2.7	6.9	2.2
Fourth	5.0	5.3	2.1	5.2	4.4	8.0	3.7
Fifth	6.4	6.7	3.7	7.0	6.1	8.9	5.4
Sixth	8.0	8.2	5.6	9.3	8.3	9.4	7.4
Seventh	10.2	10.2	8.1	11.9	10.8	10.5	9.9
Eighth	12.7	12.5	11.4	15.8	14.4	11.9	13.4
Ninth	16.5	16.0	16.8	20.0	19.1	13.6	18.1
Tenth	35.2	34.3	51.3	25.5	32.4	18.2	38.5
Top 5 percent	24.4	23.9	38.6	13.5	20.1	10.4	26.3
Top 1 percent	11.6	11.4	21.4	2.6	6.7	3.8	12.3
All deciles [3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 60.—DISTRIBUTION OF FAMILY INCOME AND OF FEDERAL TAX PAYMENTS BY FAMILY DECILE—Continued

[Corporate income tax allocated to labor income]

Decile [1]	Family income		Federal taxes paid				
	Before tax	After tax	Individual income	Social insurance	Corporate income	Excise	All taxes
1990							
First [2]	.9	1.0	−0.1	.6	.5	3.9	.4
Second	2.2	2.6	.0	1.5	1.2	5.7	.9
Third	3.6	4.0	.6	3.4	2.7	7.0	2.1
Fourth	5.0	5.4	1.8	5.2	4.3	7.8	3.6
Fifth	6.4	6.8	3.5	7.2	6.2	8.9	5.4
Sixth	8.1	8.3	5.5	9.3	8.2	9.5	7.4
Seventh	10.1	10.2	7.9	11.8	10.6	10.6	9.8
Eighth	12.7	12.5	11.0	15.8	14.2	11.7	13.2
Ninth	16.4	15.9	16.4	19.8	18.7	13.8	17.9
Tenth	35.2	33.9	53.3	25.4	33.1	19.1	39.3
Top 5 percent	24.4	23.6	40.7	13.6	21.0	12.0	27.2
Top 1 percent	11.8	11.4	23.3	2.6	8.0	4.9	13.1
All deciles [3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1990 (corporate income tax allocated to capital income)							
First [2]	0.9	1.0	−0.1	0.6	0.3	3.9	0.4
Second	2.2	2.6	0.0	1.6	1.0	5.7	0.9
Third	3.5	4.0	0.7	3.6	1.8	7.0	2.1
Fourth	4.9	5.4	1.9	5.4	2.9	7.8	3.5
Fifth	6.4	6.7	3.5	7.3	3.8	8.9	5.2
Sixth	8.0	8.3	5.4	9.5	4.9	9.6	7.0
Seventh	9.9	10.2	7.8	11.9	6.7	10.6	9.3
Eighth	12.5	12.6	10.9	15.8	7.9	11.7	12.4
Ninth	16.2	15.9	16.4	19.6	10.8	13.8	16.8
Tenth	36.0	34.0	53.4	24.6	59.8	19.0	42.4
Top 5 percent	25.3	23.6	40.9	12.9	51.2	11.9	30.8
Top 1 percent	12.5	11.4	23.3	2.6	34.2	4.8	16.3
All deciles [3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Ranked by size of family income.

[2] Excludes families with zero or negative incomes.

[3] Includes families with zero or negative incomes not shown separately.

Source: Congressional Budget Office tax simulation models.

TABLE 61.—EFFECTIVE TAX RATES BY DEMOGRAPHIC GROUP, 1990

[Corporate income tax allocated to capital income]

Quintile	All families	Families with children	Elderly families	Nonelderly childless families
Number of families (millions):				
Lowest [1]	19.0	5.0	6.1	7.9
Second	20.5	5.8	5.1	9.6
Middle	20.5	7.0	3.8	9.7
Fourth	20.5	8.8	3.0	8.7
Highest	20.5	8.9	2.6	9.0
Total [2]	102.6	36.0	20.7	45.9
Average income (1988 dollars):				
Lowest [1]	6,203	5,989	6,708	5,948
Second	15,660	15,900	15,380	15,660
Middle	26,540	26,780	26,200	26,500
Fourth	41,590	41,980	40,920	41,430
Highest	96,540	91,770	108,500	97,710
Average	37,050	41,270	30,310	36,780
Effective income tax rate (percent):				
Lowest [1]	−0.4	−4.8	.0	2.0
Second	3.4	−.7	1.4	6.9
Middle	7.0	5.1	4.4	9.3
Fourth	9.3	7.7	8.7	11.1
Highest	14.9	13.9	16.1	15.5
Average	11.1	10.0	9.9	12.6
Payroll tax rate (percent):				
Lowest [1]	6.2	8.1	.3	10.0
Second	9.3	11.8	1.2	12.0
Middle	10.3	12.4	2.1	12.0
Fourth	10.8	12.5	2.8	11.8
Highest	7.4	8.6	2.6	7.9
Average	8.8	10.3	2.3	9.9
Corporate tax rate (percent):				
Lowest [1]	1.3	.8	1.9	1.0
Second	1.6	.6	4.5	.8
Middle	1.8	.6	6.1	1.0
Fourth	1.9	.6	7.4	1.3
Highest	4.0	2.3	10.2	3.5
Average	2.9	1.6	7.8	2.4
Excise tax rate (percent):				
Lowest [1]	2.5	3.4	1.6	2.7
Second	1.4	1.7	1.1	1.4
Middle	1.0	1.1	.8	1.0
Fourth	.8	.9	.6	.8
Highest	.5	.6	.4	.5
Average	.8	.9	.7	.8

TABLE 61.—EFFECTIVE TAX RATES BY DEMOGRAPHIC GROUP, 1990—Continued

[Corporate income tax allocated to capital income]

Quintile	All families	Families with children	Elderly families	Nonelderly childless families
Total effective tax rate (percent):				
Lowest [1]	9.5	7.5	3.8	15.7
Second	15.7	13.3	8.1	21.1
Middle	20.1	19.3	13.4	23.3
Fourth	22.8	21.8	19.6	25.0
Highest	26.9	25.4	29.3	27.5
Average	23.7	22.8	20.6	25.6

[1] Excludes families with zero or negative incomes.

[2] Includes families with zero or negative incomes not shown separately.

Source: Congressional Budget Office.

TABLE 62.—EFFECTIVE TAX RATES BY DEMOGRAPHIC GROUP, 1990

[Corporate income tax allocated to labor income]

Quintile	All families	Families with children	Elderly families	Nonelderly childless families
Number of families (millions):				
Lowest [1]	19.0	4.9	6.3	7.8
Second	20.5	5.7	5.4	9.4
Middle	20.5	6.9	3.8	9.8
Fourth	20.5	8.8	2.8	8.9
Highest	20.5	9.2	2.3	9.1
Total [2]	102.6	36.0	20.7	45.9
Average income (1988 dollars)				
Lowest [1]	6,216	5,983	6,713	5,959
Second	15,770	16,060	15,480	15,760
Middle	26,820	27,090	26,490	26,760
Fourth	42,130	42,540	41,320	41,970
Highest	95,560	91,310	107,000	97,010
Average	37,050	42,060	28,180	37,130
Effective income tax rate (percent):				
Lowest [1]	−0.4	−4.7	0.0	1.9
Second	3.2	−1.0	1.8	6.6
Middle	6.9	4.8	5.4	9.0
Fourth	9.3	7.4	10.2	10.8
Highest	15.1	13.6	18.1	15.6
Average	11.1	9.8	10.7	12.5
Payroll tax rate (percent):				
Lowest [1]	5.8	7.8	0.3	9.6
Second	8.8	11.4	1.1	11.5

TABLE 62.—EFFECTIVE TAX RATES BY DEMOGRAPHIC GROUP, 1990—Continued

[Corporate income tax allocated to labor income]

Quintile	All families	Families with children	Elderly families	Nonelderly childless families
Middle	10.0	12.0	2.1	11.6
Fourth	10.7	12.2	3.2	11.5
Highest	7.7	8.6	3.0	8.1
Average	8.8	10.1	2.4	9.8
Corporate tax rate (percent):				
Lowest [1]	1.6	2.1	0.1	2.6
Second	2.5	3.1	0.3	3.3
Middle	2.9	3.5	0.6	3.5
Fourth	3.2	3.7	0.9	3.5
Highest	3.0	3.3	1.1	3.1
Average	2.9	3.4	0.8	3.3
Excise tax rate (percent):				
Lowest [1]	2.5	3.4	1.6	2.7
Second	1.4	1.6	1.1	1.4
Middle	1.0	1.1	0.9	1.0
Fourth	0.8	0.8	0.6	0.8
Highest	0.5	0.6	0.4	0.5
Average	0.8	0.8	0.7	0.8
Total effective tax rate (percent):				
Lowest [1]	9.5	8.6	2.0	16.9
Second	15.8	15.2	4.3	22.8
Middle	20.9	21.4	9.0	25.1
Fourth	23.9	24.1	14.9	26.5
Highest	26.2	26.1	22.6	27.3
Average	23.7	24.2	14.6	26.3

[1] Excludes families with zero or negative incomes.

[2] Includes families with zero or negative incomes not shown separately.

Source: Congressional Budget Office.

TABLE 63.—AVERAGE INCOME AND TOTAL EFFECTIVE TAX RATES OF ALL FAMILIES, BY QUINTILES, SELECTED YEARS

[Corporate income tax allocated to labor income]

Quintile	1977	1980	1985	1990	Percent change 1977–90	Percent change 1980–90	Percent change 1985–90
			Average income (in 1988 dollars)				
Lowest	6,605	6,068	5,847	6,216	−5.9	2.4	6.3
Second	16,400	14,980	14,690	15,770	−3.8	5.3	7.4
Middle	27,910	25,550	25,020	26,820	−3.9	5.0	7.2
Fourth	41,890	38,870	39,320	42,130	0.6	8.4	7.1

TABLE 63.—AVERAGE INCOME AND TOTAL EFFECTIVE TAX RATES OF ALL FAMILIES, BY QUINTILES, SELECTED YEARS—Continued

[Corporate income tax allocated to labor income]

Quintile	1977	1980	1985	1990	Percent change 1977–90	Percent change 1980–90	Percent change 1985–90
Highest	82,200	79,670	89,050	95,560	16.3	19.9	7.3
Average	34,830	32,850	34,480	37,050	6.4	12.8	7.5
Total effective tax rate							
Lowest	8.5	7.2	9.0	9.5	11.8	31.9	5.6
Second	14.4	14.7	15.2	15.8	9.7	7.5	3.9
Middle	19.9	20.2	19.2	20.9	5.0	3.5	8.9
Fourth	23.2	23.8	22.1	23.9	3.0	0.4	8.1
Highest	26.0	26.6	23.8	26.2	0.8	−1.5	10.1
Average	22.7	23.3	21.7	23.7	4.4	1.7	9.2

TABLE 64.—AVERAGE INCOME AND TOTAL EFFECTIVE TAX RATES OF ALL FAMILIES WITH CHILDREN, BY QUINTILES, SELECTED YEARS

[Corporate income tax allocated to labor income]

Quintile	1977	1980	1985	1990	Percent change 1977–90	Percent change 1980–90	Percent change 1985–90
Average income (in 1988 dollars)							
Lowest	6,799	6,002	5,659	5,983	−12.0	−0.3	5.7
Second	16,690	15,250	14,960	16,060	−3.8	5.3	7.4
Middle	28,170	25,880	25,300	27,090	−3.8	4.7	7.1
Fourth	42,080	39,120	39,760	42,540	1.1	8.7	7.0
Highest	79,500	76,690	85,080	91,310	14.9	19.1	7.3
Average	40,790	37,940	39,010	42,060	3.1	10.9	7.8
Total effective tax rate							
Lowest	7.7	6.1	8.9	8.6	11.7	41.0	−3.4
Second	14.2	14.1	16.2	15.2	7.0	7.8	−6.2
Middle	20.1	20.1	20.2	21.4	6.5	6.5	5.9
Fourth	22.9	23.5	22.9	24.1	5.2	2.6	5.2
Highest	25.4	26.1	24.1	26.1	2.8	0.0	8.3
Average	23.1	23.6	22.7	24.2	4.8	2.5	6.6

TABLE 65.—AVERAGE INCOME AND TOTAL EFFECTIVE TAX RATES OF THE ELDERLY, BY QUINTILES, SELECTED YEARS

[Corporate income tax allocated to labor income]

Quintile	1977	1980	1985	1990	Percent change		
					1977–90	1980–90	1985–90
Average income (in 1988 dollars)							
Lowest	6,906	6,476	6,443	6,713	−2.8	3.7	4.2
Second	15,940	14,520	14,370	15,480	−2.9	6.6	7.7
Middle	27,330	24,980	24,640	26,490	−3.1	6.0	7.5
Fourth	41,520	38,350	38,510	41,320	−0.5	7.7	7.3
Highest	91,460	96,070	100,300	107,000	17.0	11.4	6.7
Average	23,090	23,430	26,800	28,180	22.0	20.3	5.1
Total effective tax rate							
Lowest	4.2	2.8	2.0	2.0	−52.4	−28.6	0.0
Second	4.5	4.3	3.5	4.3	−4.4	0.0	22.9
Middle	8.0	8.6	6.9	9.0	12.5	4.7	30.4
Fourth	13.7	13.8	11.5	14.9	8.8	8.0	29.6
Highest	20.4	22.5	19.9	22.6	10.8	.4	13.6
Average	12.1	13.5	12.4	14.6	20.7	8.1	17.7

TABLE 66.—AVERAGE INCOME AND TOTAL EFFECTIVE TAX RATES OF NONELDERLY CHILDLESS UNITS, BY QUINTILES, SELECTED YEARS

[Corporate income tax allocated to labor income]

Quintile	1977	1980	1985	1990	Percent change		
					1977–90	1980–90	1985–90
Average income (in 1988 dollars)							
Lowest	6,202	5,713	5,521	5,959	−3.9	4.3	7.9
Second	16,480	15,080	14,700	15,760	−4.4	4.5	7.2
Middle	27,870	25,490	24,950	26,760	−4.0	5.0	7.3
Fourth	41,720	38,690	39,140	41,970	.6	8.5	7.2
Highest	83,730	79,490	90,320	97,010	15.9	22.0	7.4
Average	34,610	32,640	34,260	37,130	7.3	13.8	8.4
Total effective tax rate							
Lowest	13.7	12.7	15.0	16.9	23.4	33.1	12.7
Second	20.4	20.9	21.0	22.8	11.8	9.1	8.6
Middle	24.0	24.4	23.4	25.1	4.6	2.9	7.3
Fourth	25.7	26.5	24.6	26.5	3.1	0.0	7.7
Highest	28.0	28.1	24.6	27.3	−2.5	−2.8	11.0
Average	25.7	26.1	24.1	26.3	2.3	.8	9.1

SUMMARY OF THE CENSUS REPORT [9] ON THE EFFECT OF BENEFITS AND TAXES ON FAMILY INCOME AND POVERTY

In late 1988, the Census Bureau released a new report which shows what happens to the income and poverty status of households (including persons living alone in a housing unit) when taxes (Federal and State individual income taxes, property taxes on owner-occupied housing, and payroll taxes) are subtracted from the income definition and when additional selected sources of income are added to the definition.[10] [11] The data in the report are based on experimental techniques that assign income values to several government noncash benefits, and the imputed income flow that is derived from home equity. The report is a valuable aid to determining the effect of Government tax and transfer policies on the distribution of income and on poverty.

The report presents data based on a number of definitions of income. The types of income that are included in one or more of the definitions include (1) money income excluding capital gains or lump-sum payments, (2) capital gains, (3) the value of employer contributions to health insurance plans, (4) the value of food stamps, (5) the subsidy value of school lunches, (6) the subsidy value of housing assistance, (7) the fungible value of Medicare coverage [12], (8) the fungible value of Medicaid coverage, and (9) the imputed net return on equity in an owner-occupied home. The types of taxes that are accounted for are Federal and State income taxes and payroll taxes. Because of a technical problem, Federal tax data shown in the report do not include the earned income tax credit. The report presents data for 1986.

Table 67 presents data on the median and mean values of income, based on each of the 12 definitions of income. The median income based on all private sources of income (definition 4) was $24,211 in 1986. Federal and State income and payroll taxes combined to reduce median income to $20,180 (definition 7). Four categories of Government transfers increased median income to $23,220 (definition 11). Including in income the return on equity in a home raises the median income to $24,984.

Table 68 presents the shares of income received by each of five quintiles, defined to represent of fifth of all households in the

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[9] This section is based entirely upon and summarizes the new Census Report entitled "Measuring the Effect of Benefits and Taxes on Income and Poverty: 1986."

[10] The report is "Measuring the Effect of Benefits and Taxes on Income and Poverty: 1986," U.S. Department of Commerce, Bureau of the Census, Series P-60, no. 164-RD-1, December 1988.

[11] The report classifies government transfers into four categories: non-means-tested transfers (primarily Social Security and payments to veterans), non-means-tested noncash transfers (primarily Medicare benefits), means-tested cash transfers (primarily AFDC and SSI benefits), and means-tested noncash transfers (primarily Medicaid benefits, food stamps and housing subsidies).

[12] The principle that was followed in determining fungible value can be summed as follows: Medicare and Medicaid benefits are counted as income to the extent that they free up resources that could have been spent on medical care. Thus, (a) Medicare and Medicaid benefits have no income value if the family is unable to meet basic food and housing requirements or has no remaining resources after meeting these basic requirements; (b) these benefits have full income value (defined to be the mean government outlay for families in a given risk class) if the resources of the family after deducting amounts required for basic food and housing costs were as great or greater than the mean Medicare and/or Medicaid outlays for families in the same risk class; (c) Medicare and/or Medicaid benefits have partial income value if the resources of the family are higher than the level specified in item (a) but lower than the level specified in item (b).

United States, by definition of income. This table shows that both Government tax and transfer policies served to increase the portion of aggregate income received by the two lowest quintiles of households. For example, the lowest quintile received 1 percent of aggregate private sources of income (definition 4). After taxes and transfers (definition 11), the lowest quintile received 4.7 percent of aggregate disposable income. When using this table, keep in mind that quintiles are defined based on the absolute value of household income (not income as a fraction of the poverty threshold or any other income concept that adjusts for family size) and that quintiles are redefined for every income definition and so different families comprise the quintiles as you compare columns in the table for a given row.

Table 69 provides more detailed data on median household income, based upon selected household characteristics and the twelve definition of income. Among other facts, this table shows that government policies, specifically government transfers, served to increase the median household income of elderly households significantly. Among households with children, government tax policies reduced median household income significantly, and government transfers did not offset these reductions.

Tables 70 and 71 present poverty rate data for persons of selected characteristics, based on definitions of income which vary slightly from the definitions employed for tables 67 and 68. These tables show that non-means-tested transfers had a very large effect on the prevalence of poverty, particularly among the aged.

TABLE 67.—MEDIAN, MEAN, AND AGGREGATE HOUSEHOLD INCOME, BY DEFINITION OF INCOME: 1986

[Total households = 89,479,000]

Definition of income	Median income	Mean income	Aggregate income (in billions)
Income before taxes:			
1. Money income excluding capital gains (current measure)	$24,897	$30,759	$2,752.3
2. Definition 1 less government money transfers	22,745	28,313	2,533.4
3. Definition 2 plus capital gains	23,274	31,073	2,780.4
4. Definition 3 plus health insurance supplements to wage or salary income	24,211	32,082	2,870.7
Income after taxes:			
5. Definition 4 less Federal income taxes	22,071	28,050	2,509.8
6. Definition 5 less State income taxes	21,530	27,113	2,426.0
7. Definition 6 less Social Security payroll taxes	20,180	25,582	2,289.1
8. Definition 7 plus nonmeans-tested government cash transfers	22,204	27,774	2,485.2
9. Definition 8 plus nonmeans-tested government noncash transfers	22,941	28,375	2,539.0
10. Definition 9 plus means-tested government cash transfers	23,037	28,629	2,561.7
11. Definition 10 plus means-tested government noncash transfers	23,220	28,914	2,587.2
12. Definition 11 plus net imputed return on equity in own home	24,984	31,068	2,780.0

TABLE 68.—PERCENTAGE OF AGGREGATE INCOME RECEIVED BY INCOME QUINTILES, BY DEFINITION OF INCOME: 1986

[Total households = 89,479,000]

Definition of income	Lowest quintile	Second quintile	Third quintile	Fourth quintile	Highest quintile
Income before taxes:					
1. Money income excluding capital gains (current measure)	3.8	9.7	16.4	24.0	46.1
2. Definition 1 less government money transfers	1.1	8.2	16.0	25.6	49.2
3. Definition 2 plus capital gains	1.0	7.6	15.1	23.9	52.5
4. Definition 3 plus health insurance supplements to wage or salary income	1.0	7.6	15.0	24.1	52.4
Income after taxes:					
5. Definition 4 less Federal income taxes	1.1	8.2	15.7	24.4	50.6
6. Definition 5 less State income taxes	1.1	8.4	15.8	24.5	50.2
7. Definition 6 less Social Security payroll taxes	1.1	8.4	15.8	24.4	50.3
8. Definition 7 plus nonmeans-tested government cash transfers	3.4	9.9	16.0	23.4	47.2
9. Definition 8 plus nonmeans-tested government noncash transfers	3.6	10.4	16.2	23.3	46.5
10. Definition 9 plus means-tested government cash transfers	4.2	10.4	16.1	23.2	46.1
11. Definition 10 plus means-tested government noncash transfers	4.7	10.6	16.0	23.0	45.7
12. Definition 11 plus net imputed return on equity in own home	4.9	10.5	16.1	23.0	45.5

TABLE 69.—MEDIAN HOUSEHOLD INCOME, BY SELECTED CHARACTERISTICS AND DEFINITION OF INCOME: 1986

Characteristic	Definition 1 (money income before taxes excluding capital gains)	Definition 4 (definition 1 less government transfers plus capital gains and employer health insurance benefits)	Definition 7 (definition 4 less income and payroll taxes)	Definition 11 (definition 7 plus government cash and noncash transfers)	Definition 12 (definition 11 plus net imputed return on home equity)
All households	$24,897	$24,211	$20,180	$23,200	$24,984
With members 65 years and over	14,922	7,005	6,755	17,875	20,600
With related children under 18 years	29,320	30,417	25,419	26,615	28,092
TYPE OF HOUSEHOLD BY RACE AND HISPANIC ORIGIN OF HOUSEHOLDER					
Married-couple households with related children under 18 years:					
All races	34,293	35,759	29,556	30,485	32,290
White	34,989	36,408	29,959	30,848	32,696
Black	28,961	29,948	25,588	27,205	28,625
Hispanic [1]	23,742	24,641	21,070	22,655	23,475
Female householder, no husband present, with related children under 18 years:					
All races	11,400	10,038	9,025	12,623	13,045
White	13,158	12,197	10,955	13,724	14,189
Black	8,452	5,963	5,398	11,260	11,509
Hispanic [1]	8,588	4,289	3,843	10,870	11,120
WORK EXPERIENCE OF HOUSEHOLD MEMBERS					
With one or more year-round, full-time workers	34,360	35,557	28,825	30,007	31,908
With two or more year-round, full-time workers	46,196	48,792	38,810	39,483	41,681
With one or more members 20 to 64 years and no workers	6,986	1,912	1,910	9,337	10,171

[1] Persons of Hispanic origin may be of any race.

TABLE 70.—PERCENTAGE OF PERSONS IN POVERTY, BY RACE, HISPANIC ORIGIN, AND DEFINITION OF INCOME: 1986

Definition of income	All races	White	Black	Hispanic [1]
All persons (thousands)	238,554	202,282	28,871	18,758
In poverty				
Income before taxes:				
P1. Money income excluding capital gains (current measure)	13.6	11.0	31.1	27.3
P2. Definition P1 less government money transfers	20.8	18.2	39.5	32.8
P3. Definition P2 plus capital gains	20.4	17.7	38.9	32.2
P4. Definition P3 plus health insurance supplements to wage or salary income	19.9	17.3	37.9	31.2
Income after taxes:				
P5. Definition P4 less income and payroll taxes	21.2	18.4	40.4	33.9
P6. Definition P5 plus nonmeans-tested government cash transfers	14.9	12.0	34.2	29.6
P7. Definition P6 plus fungible value of Medicare	14.4	11.5	33.2	29.3
P8. Definition P7 plus means-tested government cash transfers	13.5	10.9	31.1	27.6
P9. Definition P8 plus value of food and housing benefits	12.1	9.8	27.1	24.4
P10. Definition P9 plus fungible value of Medicaid	11.6	9.4	25.8	23.5
P11. Definition P10 plus net imputed return on equity in own home	10.3	8.2	24.0	21.4

[1] Persons of Hispanic origin may be of any race.

TABLE 71.—PERCENTAGE OF PERSONS IN POVERTY, BY AGE AND DEFINITION OF INCOME: 1986

Definition of income	Under 18 years		18 to 24 years	25 to 44 years	45 to 64 years	65 years and over
	Total	Related children				
All persons (thousands)	62,948	62,691	26,463	76,267	44,901	27,975
Income before taxes:						
P1. Money income excluding capital gains (current measure)	20.5	20.2	15.6	10.2	9.1	12.4
P2. Definition P1 less government money transfers	23.4	23.2	18.6	12.7	15.2	48.5
P3. Definition P2 plus capital gains	23.0	22.8	18.2	12.4	14.8	47.1
P4. Definition P3 plus health insurance supplements to wage or salary income	22.2	22.0	17.7	11.9	14.5	47.0
Income after taxes:						
P5. Definition P4 less income and payroll taxes	24.0	23.8	19.5	13.2	15.4	47.5
P6. Definition P5 plus non-means-tested government cash transfers	21.9	21.7	17.3	11.3	10.2	14.0
P7. Definition P6 plus the fungible value of Medicare	21.7	21.5	17.1	11.1	9.7	11.6
P8. Definition P7 plus means-tested government cash transfers	20.8	20.5	16.2	10.5	9.0	10.1
P9. Definition P8 plus value of food and housing benefits	18.2	17.9	14.9	9.4	8.3	9.1
P10. Definition P9 plus the fungible value of Medicaid	17.1	16.9	14.3	9.0	8.1	9.0
P11. Definition P10 plus net imputed return on equity in own home	16.0	15.7	13.7	8.4	6.4	5.7

STATISTICS ON THE WEALTH STATUS OF HOUSEHOLDS, BY AGE OF HOUSEHOLDER [13]

The life cycle theory of saving assumes that people try to attain and at least maintain particular consumption goals over their lifetimes. The fact that most people anticipate some period of retirement, when they will no longer have current earnings from work, theoretically is a basic factor affecting savings behavior. It is common to regard the period of work as the time when savings accumlate for later retirement, and retirement as the time when assets are liquidated to provide income for current consumption. Tables 72, 73, and 74 present a profile of net worth and home equity by age.

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[13] This section borrows heavily from a CRS study, "Retirement Income for an Aging Population," prepared for the Committee on Ways and Means with analytic support from CBO, August 1987.

TOTAL HOUSEHOLD NET WORTH

Table 72 shows percentile distributions of total household net worth [14] (wealth less unsecured debt) by age of householder. It is important to note that data on pension equity, a potentially important asset, is not available and is not included in this table. As with total income, net worth is higher among households in each successive age group, peaking among household heads between the ages of 55 and 59, and then diminishing.

Table 73 shows that household net worth tends also to be a function of income as well as age. Net worth tends to increase with income. When compared at equal income levels, net worth is greater for households with heads who are older than for households with heads who are younger.

TABLE 72.—TOTAL NET WORTH PERCENTILES BY AGE OF HOUSEHOLDER: 1984

Age	10th percentile	25th percentile	Median	75th percentile	90th percentile
15 to 19	−$690	0	$730	$3,720	$12,594
20 to 24	−1,300	0	2,440	8,006	19,233
25 to 29	−1,095	$542	5,300	19,250	45,357
30 to 34	−167	1,700	13,665	41,470	79,756
35 to 39	0	4,850	28,320	68,124	130,173
40 to 44	650	11,364	45,825	92,000	177,598
45 to 49	520	13,500	52,341	105,344	197,225
50 to 54	600	19,618	64,475	123,105	220,835
55 to 59	1,600	25,401	72,125	139,649	250,441
60 to 64	3,020	29,000	72,588	135,756	242,850
65 to 69	1,075	25,386	65,849	126,099	223,560
70 to 74	528	18,000	59,885	112,196	197,767
75 to 79	999	18,200	58,200	114,990	190,918
80 to 84	683	15,479	52,070	102,900	162,673
85 plus	400	14,649	47,599	100,439	160,400

Source: Survey of Income and Program Participation [SIPP] Wave IV. Table prepared by the Congressional Research Service [CRS].

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[14] Net worth is defined as total household wealth less unsecured debt (credit card debt, installment debt, etc.). Household wealth includes: interest-earning assets at financial institutions, such savings accounts and certificates of deposit; other interest-earning assets, such as money-market funds and government securities; checking accounts, stocks and mutual fund shares, home equity and other real estate equity, vehicles, business or professional interests, IRA or Keogh accounts, and other financial investments. Equities in pensions, cash surrender value of life insurance policies, and the value of jewelry and home furnishings are not included.

TABLE 73.—MEDIAN TOTAL HOUSEHOLD NET WORTH BY ANNUAL INCOME AND HOUSEHOLDER'S AGE: 1984

Income bracket	All householders	Householders age 25 to 44	Householders age 45 to 64	Householders age 65 and over
Negative	$1,255	$1,942	$5,000	$32,240
$1 to $4,999	1,177	321	3,020	10,349
$5,000 to $9,999	8,050	750	19,899	28,835
$10,000 to $14,999	18,000	3,700	37,125	60,000
$15,000 to $19,999	22,650	7,450	42,450	82,375
$20,000 to $24,999	28,611	14,225	54,875	94,816
$25,000 to $29,999	32,395	18,200	63,200	128,015
$30,000 to $34,999	43,400	27,400	73,206	152,449
$35,000 to $39,999	54,983	39,728	75,714	165,249
$40,000 to $44,999	61,025	40,748	80,574	169,923
$45,000 to $49,999	67,941	51,995	84,125	170,536
$50,000 to $74,999	98,100	68,475	118,995	228,559
$75,000 to $99,999	160,548	128,341	168,258	316,700
$100,000 and over	265,275	195,827	324,871	507,100

Source: Survey of Income and Program Participation [SIPP] Wave IV. Table prepared by the Congressional Research Service [CRS].

TABLE 74.—COMPARISON OF MEDIAN HOUSEHOLD NET WORTH, HOME EQUITY, AND NET WORTH LESS HOME EQUITY: 1984

Age	Median total net worth	Median home equity	Median total net worth less home equity
15 to 19	$730	0	$600
20 to 24	2,440	0	1,820
25 to 29	5,300	0	2,828
30 to 34	13,665	$2,500	4,350
35 to 39	28,320	17,500	6,260
40 to 44	45,825	28,000	9,836
45 to 49	52,341	31,999	11,040
50 to 54	64,475	40,000	15,100
55 to 59	72,125	40,000	21,550
60 to 64	72,588	43,250	21,877
65 to 69	65.849	38.000	21.111
70 to 74	59,885	30,000	18,399
75 to 79	58,200	28,000	20,000
80 to 84	52,070	30,000	12,338
85 plus	47,599	25,000	14,790

Source: Survey of Income and Program Participation [SIPP] Wave IV. Table prepared by the Congressional Research Service [CRS].

HOME EQUITY

Table 74, which presents data on median total household net worth, median home equity, and median household net worth other than home equity, shows that the purchase of a home is the largest investment that most people make. For the majority of householders ages 35 and over, the most important component of total net worth is home equity.

HOMELESSNESS IN AMERICA [15]

In the past few years, much attention has been given to the number of homeless persons in the United States. A study done by the Urban Institute estimates that there are 229,000 "service-using" (using shelters or soup kitchens) homeless in cities of over 100,000 people. This is based upon a sample of 20 cities, in which 400 service providers were randomly selected. From the number of 229,000, the 560,000–680,000 range of the total homeless population was derived using a number of assumptions. The total U.S. population was broken down into people in cities of over 100,000 (25.4 percent), people in other parts of Metropolitan Statistical Areas (51.2 percent), and people outside MSAs (23.4 percent). It was assumed that in cities over 100,000 people, the service-using homeless constitute two-thirds of the homeless population. It was further assumed that the rate of homelessness in the second category was equal to one-third the rate of homelessness in the first category, and in the third category the rate of homelessness was closer to one-sixth the rate in the first category. Further alternative assumptions produced the final range of estimates between 560,000 and 680,000.

The general makeup of America's homeless population is hard to determine, as the diversity of homeless people and their circumstances is great. Although the stereotypical male, middle-aged, alcoholic homeless person is still evident as part of the homeless population, the fact that many families are homeless makes it difficult to classify the entire homeless population. In a sampling of service users, researchers found that 77 percent of the homeless are single, leaving 23 percent as members of homeless families—8 percent are adults in families and 15 percent are children. This last number is increasing greatly; children represent the fastest-growing subpopulation of the homeless population. Furthermore, 88 percent of the heads of homeless families are female. The increase in cases of single motherhood combined with a dearth of affordable housing has contributed to the growth of the family component of the homeless population.

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[15] All data in this subsection are from "Report to Congress on the Prepared Meals Provisions," by the Urban Institute, 1988.

As shown in table 75, there are significant differences in the makeup of the homeless family subpopulation and the homeless individual subpopulation. The majority of the adult homeless population is male (81 percent); however, whereas 88 percent of all homeless individuals are male, only 12 percent of homeless adults in families are male. Overall, 54 percent of the adult homeless population is nonwhite; however, whereas 51 percent of homeless individuals are nonwhite, more than three-quarters (78 percent) of homeless adults in families are nonwhite. Of all homeless adults, 51 percent are between 31 and 50 years old. The elderly are the most notably underrepresented age category, as compared to their percentage of the general population. The average homeless individual has been homeless for a median of 12 months, the average homeless family 4.5 months. The median income for an individual is $64 a month; for a family it is $300 per month. Both of these numbers fall below 50 percent of the poverty level in 1987. Homeless men are more likely to have earned income; homeless women are more likely to collect means-tested benefits.

In addition to children, minorities also represent a growing portion of the homeless. There are disproportionate percentages of blacks and Hispanics among the homeless in comparison to the overall population. Furthermore, homeless families are even more likely to be black or Hispanic than homeless individuals. Education is also a determining factor; a large percentage (48 percent) of the homeless did not graduate from high school. Veterans constitute a significant portion of the homeless; it is estimated that one-third of all homeless men are Vietnam veterans. Twenty-two percent of all homeless are employed.

The homeless suffer from a variety of economic and noneconomic problems. Basic health problems such as the common cold are exacerbated by the fact that homeless people, even those in shelters, must return to the streets during the day, unable to rest and recover. More serious though are the problems of mental illness associated with the homeless. Twenty percent of homeless people interviewed admitted to a history of mental hospitalization, and 49 percent expressed and showed signs of severe depression, indicating a need for treatment. The policies of deinstitutionalization of mental patients account for a number of mentally ill homeless persons. As shown in table 76, the number of inpatients at mental hospitals has decreased drastically over the past 30 years.

Concerning nutrition, 37 percent of homeless persons report eating one meal a day or less and 36 percent report going at least 1 day a week without any nourishment. Even many homeless who eat regularly, two to three times a day, rate their diet as nutritionally only fair or poor. On average, the homeless eat foods from 2.7 of the five major food groups daily. Homeless families report having a more nutritionally balanced diet than homeless individuals.

Assistance to the homeless is provided in the forms of services and benefits. Services are available in the forms of soup kitchens and shelters. Nearly all (95 percent) soup kitchens and shelters offer meals and/or beds to the homeless at no cost. However, the shelters were originally established to provide emergency relief for short periods of time; the length of stays is getting increasingly longer, and the shelters increasingly crowded. Families are more likely to use shelters, while single men tend to use soup kitchens. Homeless who do not use any services tend to have more mental and health problems and less steady income, whether in earnings or benefits. They have been homeless longer, and have substantially poorer eating habits than the service-using population.

The services offered to the homeless receive very little Government funding; only 26 percent of providers receive any form of Government support. For the most part, they are able to operate on donations from USDA commodities, the United Way, churches, and businesses. The Government supplies financial support to the homeless in a variety of benefits: AFDC, food stamps, general assistance, etc. Families, especially those headed by a female, are much more likely to receive the benefits available. Approximately 50 percent of homeless families get food stamps, in comparison to only 15 percent of homeless individuals.

The increasing number of homeless families probably indicates that the economic status of the poor is declining. For the most part, families appear to be homeless for primarily financial reasons. Homeless individuals, on the other hand, are more likely to need assistance in dealing with problems relating to mental illness, malnutrition, psychological distress, personal health care, and substance abuse.

TABLE 75.—CHARACTERISTICS OF HOMELESS ADULTS IN CITIES OF POPULATION OVER 100,000

[In weighted percentages]

	Homeless adults		Total
	Single	In families	
Total	77	8	[1] 85
Sex:			
Male	88	12	81
Female	12	88	19
Race:			
Black	39	54	41
Hispanic	9	20	10
White	49	22	46
Other	3	4	3
Age:			
18 to 30	NA	NA	30
31 to 50	NA	NA	51
51 to 65	NA	NA	16
66+	NA	NA	3
Marital status:			
Married	9	23	10
Divorced/separated	30	25	29
Widowed	6	6	5
Never married	56	47	55

TABLE 75.—CHARACTERISTICS OF HOMELESS ADULTS IN CITIES OF POPULATION OVER 100,000—Continued

[In weighted percentages]

	Homeless adults		Total
	Single	in families	
Medical history:			
Mental hospitalization	20	11	19
Chemical dependency	35	12	33
Criminal history:			
Jailed for 5 or more days	56	18	52
State or Federal prison	26	2	24
Number of months homeless:			
Mean	41.3	14.6	NA
Median	12.0	4.5	NA
Monthly cash income:			
Mean	$146	$301	NA
Median	$64	$300	NA
Receiving benefits:			
Food Stamps	15	50	NA
AFDC	1	33	NA
General assistance	10	33	NA
Eating habits:			
Percent who eat less than once a day	8	1	7
Once a day	31	19	30
Twice a day	38	39	38
Three or more times a day	25	41	25
No food over a 2-day period, once a week	18	5	17

[1] The remaining 15 percent of homeless individuals are children in homeless families.

NA: Not available.

Source: All data from a study done by the Urban Institute on 1,704 service-using homeless persons.

TABLE 76.—CHANGE IN TOTAL NUMBER OF INPATIENTS IN MENTAL HOSPITALS

	Number of inpatients in thousands
Year:	
1955	558.9
1961	527.5
1965	475.8
1971	309.0
1975	193.4
1977	159.5
1981	125.2
1985	115.9

Source: The National Journal, Nov. 26, 1988.

APPENDIX J. SELECTED ECONOMIC, POPULATION, AND INCOME DATA FOR THE UNITED STATES AND BY STATE

TABLE 1.—THE LABOR FORCE, 1970–88

[Thousands of persons, age 16 and over]

Year	Civilian labor force					Civilian labor force participation rate [1]	Civilian employment/population rate [2]
	Total	Employment			Unemployment		
		Total	Agricultural	Nonagricultural			
1970	82,771	78,678	3,463	75,215	4,093	60.4	57.4
1971	84,382	79,367	3,394	75,972	5,016	60.2	56.6
1972 [3]	87,034	82,153	3,484	78,669	4,882	60.4	57.0
1973 [3]	89,429	85,064	3,470	81,594	4,365	60.8	57.8
1974	91,949	86,794	3,515	83,279	5,156	61.3	57.8
1975	93,775	85,846	3,408	82,438	7,929	61.2	56.1
1976	96,158	88,752	3,331	85,421	7,406	61.6	56.8
1977	99,009	92,017	3,283	88,734	6,991	62.3	57.9
1978 [3]	102,251	96,048	3,387	92,661	6,202	63.2	59.3
1979	104,962	98,824	3,347	95,477	6,137	63.7	59.9
1980	106,940	99,303	3,364	95,938	7,637	63.8	59.2
1981	108,670	100,397	3,368	97,030	8,273	63.9	59.0
1982	110,204	99,526	3,401	96,125	10,678	64.0	57.8
1983	111,550	100,834	3,383	97,450	10,717	64.0	57.9
1984	113,544	105,005	3,321	101,685	8,539	64.4	59.5
1985	115,461	107,150	3,179	103,971	8,312	64.8	60.1
1986 [3]	117,834	109,597	3,163	106,434	8,237	65.3	60.7
1987	119,865	112,440	3,208	109,232	7,425	65.6	61.5
1988	121,669	114,968	3,169	111,800	6,701	65.9	62.3

[1] Civilian labor force as percent of civilian noninstitutional population.

[2] Civilian employment as percent of civilian noninstitutional population.

[3] Beginning 1972, introduction of 1970 census data added about 800,000 to civilian noninstitutional population and 333,000 to labor force and employment. A subsequent adjustment based on 1970 census in March 1973 added 60,000 to labor force and to employment. Beginning 1978, changes in sampling and estimation procedures introduced into the household survey added about 250,000 to labor force and to employment. Unemployment levels and rates were not significantly affected. Beginning 1986, the introduction of revised population controls added about 400,000 to the civilian population and labor force and 350,000 to civilian employment. Unemployment levels and rates were not significantly affected.

Note: Labor force data are based on household interviews and relate to the calendar week including the 12th of the month.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 2.—AVERAGE EARNINGS, HOURS, WAGES AND INCOME, TOTAL PRIVATE NONAGRICULTURAL 1970–88

Calendar year	Average weekly earnings [1]	Average yearly earnings [1]	Average yearly earnings [2]	Average weekly hours	Minimum wage [1]	Minimum wage [2]	Median family income [2] [3]	Index of real compensation per hour [4]
1970	119.83	6,231	17,062	37.1	1.45	3.97	28,880	90.9
1971	127.31	6,620	17,358	36.9	1.60	4.20	28,862	92.8
1972	136.90	7,119	18,109	37.0	1.60	4.07	30,199	95.7
1973	145.39	7,560	18,077	36.9	1.60	3.83	30,820	97.2
1974	154.76	8,048	17,463	36.5	1.90	4.12	[5] 29,735	95.9
1975	163.53	8,504	17,042	36.1	2.00	4.01	28,970	96.4
1976	175.45	9,123	17,279	36.1	2.20	4.17	29,863	98.9
1977	189.00	9,828	17,492	36.0	2.30	4.09	30,025	100.0
1978	203.70	10,592	17,659	35.8	2.65	4.42	30,730	100.9
1979	219.91	11,435	17,373	35.7	2.90	4.41	[6] 30,669	99.2
1980	235.10	12,225	16,699	35.3	3.10	4.23	28,996	96.6
1981	255.20	13,270	16,573	35.2	3.35	4.18	27,977	95.8
1982	267.26	13,898	16,360	34.8	3.35	3.94	27,591	97.2
1983	280.70	14,596	16,647	35.0	3.35	3.82	[5] 28,147	98.3
1984	292.86	15,229	16,664	35.2	3.35	3.67	28,923	97.9
1985	299.09	15,553	16,430	34.9	3.35	3.54	29,302	98.5
1986	304.86	15,853	16,430	34.8	3.35	3.47	30,534	100.8
1987	312.50	16,250	16,250	34.8	3.35	3.35	30,853	101.0
1988	323.29	16,811	16,143	34.8	3.35	3.22	NA	NA

[1] Current dollars.

[2] Constant 1987 dollars: Earnings in current dollars divided by CPI–X1 on a 1987=100 base.

[3] The term "family refers to a group of two or more persons related by blood, marriage, or adoption and residing together; all such persons are considered members of the same family.

[4] Hourly compensation divided by the consumer price index to all urban consumers (CPI–U), 1977=100.

[5] Based on revised methodology, comparable with succeeding years.

[6] Based on 1980 census population controls, comparable with succeeding years.

NA: Not available.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 3.—THE GROSS NATIONAL PRODUCT, 1970–88

Calendar year	In current dollars	In constant 1982 dollars	Percentage change from preceding period (using constant 1982 dollars)
1970	1,015.5	2,416.2	....
1971	1,102.7	2,484.8	2.8
1972	1,212.8	2,608.5	5.0
1973	1,359.3	2.744.1	5.2
1974	1,472.8	2,729.3	—.5
1975	1,598.4	2,695.0	—1.3
1976	1,782.8	2,826.7	4.9
1977	1,990.5	2,958.6	4.7
1978	2,249.7	3,115.2	5.3
1979	2,508.2	3,192.4	2.5
1980	2,732.0	3,187.1	—.2
1981	3,052.6	3,248.8	1.9
1982	3,166.0	3,166.0	—2.5
1983	3,405.7	3.279.1	3.6
1984	3,772.2	3,501.4	6.8
1985	4,014.9	3,618.7	3.4
1986	4,240.3	3,721.7	2.8
1987	4,526.7	3,847.0	3.4
1988 [1]	4,861.8	3,995.0	3.8

[1] Preliminary.

Source: Department of Commerce, Bureau of Economic Analysis.

TABLE 4.—PRICE LEVELS, 1970–1988

[1982–84 = 100]

Calendar year	GNP implicit price deflator	All items (CPI–U)	All items (CPI–U) (fiscal year)	Food and beverage [1]	Housing	Medical care	CPI–X1	CPI–X1 (fiscal year)
1970	42.0	38.8	37.8	40.1	36.4	34.0	41.3	40.3
1971	44.4	40.5	39.7	41.4	38.0	36.1	43.1	42.2
1972	46.5	41.8	41.2	43.1	39.4	37.3	44.4	43.7
1973	49.5	44.4	42.8	48.8	41.2	38.8	47.1	45.5
1974	54.0	49.3	46.6	55.5	45.8	42.4	51.9	49.3
1975	59.3	53.8	51.8	60.2	50.7	47.5	56.2	54.2
1976	63.1	56.9	[2] 55.5	62.1	53.8	52.0	59.4	[2] 57.9
1977	67.3	60.6	59.7	65.8	57.4	57.0	63.2	62.2
1978	72.2	65.2	63.9	72.2	62.4	61.8	67.5	66.2
1979	78.6	72.6	70.4	79.9	70.1	67.5	74.0	72.1
1980	85.7	82.4	80.0	86.7	81.1	74.9	82.2	80.1
1981	94.0	90.9	88.9	93.5	90.4	82.9	90.1	88.2
1982	100.0	96.5	95.4	97.3	96.9	92.5	95.6	94.4
1983	103.9	99.6	98.8	99.5	99.5	100.6	99.6	98.7
1984	107.7	103.9	102.9	103.2	103.6	106.8	103.9	102.9
1985	110.9	107.6	106.6	105.6	107.7	113.5	107.6	106.6
1986	113.9	109.6	109.3	109.1	110.9	112.0	109.6	109.3
1987	117.7	113.6	112.4	113.5	114.2	130.1	113.6	112.4
1988	121.7	118.3	117.0	118.2	118.5	138.6	118.3	117.0

[1] Includes alcoholic beverages, not shown separately.

[2] In 1976, the fiscal year was moved from July-June to October-September. The 3-month period from July through September, 1976, is not represented in this table. The value for CPI–U during this period is 57.4; the value of CPI–X1 during this period is 59.8.

Note: Data beginning 1978 are for all urban consumers; earlier data are for urban wage earners and clercial workers. Data for CPI–U beginning 1983 incorporate a rental equivalence measure for homeowners' costs (the measure used in determining CPI–X1) and therefore are not strictly comparable with earlier figures.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 5.—POPULATION STATISTICS BY STATE

State	Resident population July 1, 1987 (thousands) [1]	Resident population July 1, 1986 (thousands)	Population 65 years and over, 1987 (thousands)	Percentage of population 65 and over	Percentage change, total population 1980–87	Percentage change, total population 1970–80
Total	243,400	241,078	29,835	12.3	7.4	11.4
Connecticut	3,211	3,189	429	13.4	3.3	2.5
Maine	1,187	1,173	159	13.4	5.5	13.2
Massachusetts	5,855	5,832	800	13.7	2.1	0.8
New Hampshire	1,057	1,027	121	11.4	14.8	24.8
Rhode Island	986	975	145	14.7	4.1	−0.3
Vermont	548	541	65	11.9	7.2	15.0
Delaware	644	633	75	11.6	8.3	8.4
District of Columbia	622	626	77	12.4	−2.6	−15.6
Maryland	4,535	4,463	486	10.7	7.5	7.5
New Jersey	7,672	7,619	994	13.0	4.2	2.7
New York	17,825	17,772	2,309	13.0	1.5	−3.7
Pennsylvania	11,936	11,888	1,764	14.8	0.6	0.5
Illinois	11,582	11,552	1,405	12.1	1.4	2.8
Indiana	5,531	5,504	670	12.1	0.7	5.7
Michigan	9,200	9,145	1,058	11.5	−0.7	4.3
Ohio	10,784	10,752	1,346	12.5	−0.1	1.3
Wisconsin	4,807	4,785	633	13.2	2.1	6.5
Iowa	2,834	2,851	421	14.9	−2.7	3.1
Kansas	2,476	2,460	336	13.6	4.7	5.1
Minnesota	4,246	4,214	534	12.6	4.2	7.1
Missouri	5,103	5,066	703	13.8	3.8	5.1
Nebraska	1,594	1,598	220	13.8	1.6	5.7
North Dakota	672	679	90	13.4	2.9	5.7
South Dakota	709	708	100	14.1	2.7	3.7
Alabama	4,083	4,052	505	12.4	4.9	13.1
Arkansas	2,388	2,372	348	14.6	4.5	18.9
Florida	12,023	11,675	2,140	17.8	23.4	43.5
Georgia	6,222	6,104	623	10.0	13.9	19.1
Kentucky	3,727	3,729	457	12.3	1.8	13.7
Louisiana	4,461	4,501	481	10.8	6.1	15.4
Mississippi	2,625	2,625	318	12.1	4.1	13.7
North Carolina	6,413	6,333	754	11.8	9.0	15.7
South Carolina	3,425	3,377	367	10.7	9.7	20.5
Tennessee	4,855	4,803	602	12.4	5.7	16.9
Virginia	5,904	5,787	623	10.6	10.4	14.9
West Virginia	1,897	1,918	264	13.9	−2.7	11.8
Arizona	3,386	3,319	430	12.7	24.6	53.1
New Mexico	1,500	1,479	150	10.0	15.1	28.1

TABLE 5.—POPULATION STATISTICS BY STATE—Continued

State	Resident population July 1, 1987 (thousands) [1]	Resident population July 1, 1986 (thousands)	Population 65 years and over, 1987 (thousands)	Percentage of population 65 and over	Percentage change, total population 1980–87	Percentage change, total population 1970–80
Oklahoma	3,272	3,305	418	12.8	8.2	18.2
Texas	16,789	16,685	1,627	9.7	18.0	27.1
Colorado	3,296	3,267	305	9.3	14.1	30.8
Idaho	998	1,002	115	11.5	5.8	32.4
Montana	809	819	101	12.5	2.9	13.3
Utah	1,680	1,665	138	8.2	15.0	37.9
Wyoming	490	507	44	9.0	4.4	41.3
California	27,663	26,981	2,944	10.6	16.9	18.5
Nevada	1,007	963	106	10.5	25.8	63.8
Oregon	2,724	2,698	373	13.7	3.4	25.9
Washington	4,538	4,462	536	11.8	9.8	21.1
Alaska	525	534	19	3.6	30.7	32.8
Hawaii	1,083	1,062	109	10.1	12.2	25.3

[1] Preliminary.

Source: U.S. Department of Commerce, Bureau of the Census, Population Estimates and Projections, Series P–25, Nos. 957 and 1024, Press Release CB84–233, and unpublished records.

TABLE 6.—INCOME AND POVERTY STATISTICS BY STATE

State	1987 per capital income [1]	1986 per capita personal income [1]	1984 per capital personal income [1]	1987 rank	Poverty rate			
					1969 [2]	1975 [3]	1979 [4]	Mid-1980s [5]
Total					13.7	11.4	12.4	14.0
Connecticut	21,266	19,208	16,556	1	7.2	6.7	8.0	7.2
Maine	13,954	12,709	10,813	32	13.6	12.0	13.0	11.1
Massachusetts	19,142	17,516	14,784	4	8.6	7.1	9.6	8.8
New Hampshire	17,529	15,922	13,192	9	9.1	7.9	8.5	5.6
Rhode Island	15,555	14,670	12,820	19	11.0	8.7	10.3	11.2
Vermont	14,302	12,845	10,802	28	12.1	13.5	12.0	10.2
Delaware	16,696	15,010	13,685	10	10.9	8.2	11.8	11.3
District of Columbia	20,457	18,980	17,113	2	17.0	12.5	18.6	19.2
Maryland	18,124	16,588	14,464	6	10.1	7.7	9.8	8.5
New Jersey	20,352	18,284	15,440	3	8.1	8.1	9.5	9.5
New York	18,004	17,118	14,318	7	11.1	9.4	13.4	15.2
Pennsylvania	15,212	13,944	12,314	21	10.6	9.7	10.5	12.4
Illinois	16,422	15,420	13,802	12	10.2	10.5	11.0	15.0
Indiana	13,914	12,944	11,717	33	9.7	8.1	9.7	12.2
Michigan	15,393	14,064	12,607	20	9.4	9.1	10.4	14.4
Ohio	14,612	13,743	12,355	25	10.0	9.4	10.3	12.4
Wisconsin	14,742	13,796	12,474	23	9.8	7.7	8.7	11.8

TABLE 6.—INCOME AND POVERTY STATISTICS BY STATE—Continued

State		1986 per capita personal income [1]	1984 per capital personal income [1]	1987 rank	Poverty rate			
					1969 [2]	1975 [3]	1979 [4]	Mid-1980s [5]
Iowa	14,236	13,222	12,160	30	11.6	7.9	10.1	16.5
Kansas	15,126	14,379	13,248	22	12.7	8.0	10.1	11.2
Minnesota	15,927	14,737	13,247	14	10.7	8.3	9.5	11.5
Missouri	14,687	13,657	12,151	24	14.7	12.0	12.2	14.3
Nebraska	14,328	13,777	12,430	26	13.1	9.6	10.7	14.6
North Dakota	13,004	12,284	12,352	36	15.7	10.6	12.6	14.9
South Dakota	12,550	11,850	11,069	40	18.7	13.1	16.9	16.2
Alabama	11,940	11,115	9,992	44	25.4	16.4	18.9	21.5
Arkansas	11,507	10,773	9,805	47	27.8	18.5	19.0	22.2
Florida	15,584	14,281	12,763	17	16.4	14.4	13.4	13.3
Georgia	14,300	13,224	11,551	29	20.7	18.0	16.6	15.6
Kentucky	12,059	11,129	10,300	42	22.9	17.7	17.6	18.5
Louisiana	11,473	11,227	10,808	48	26.3	19.3	18.6	20.8
Mississippi	10,292	9,552	8,777	51	35.4	26.1	23.9	25.6
North Carolina	13,314	12,245	10,850	35	20.3	14.7	14.8	14.0
South Carolina	12,004	11,096	10,116	43	23.9	17.2	16.6	17.6
Tennessee	12,880	11,831	10,419	37	21.8	15.8	16.4	17.8
Virginia	16,517	15,374	13,254	11	15.5	10.5	11.8	10.6
West Virginia	11,020	10,530	9,728	50	22.2	15.1	15.0	22.8
Arizona	14,315	13,220	11,841	27	15.3	13.8	13.2	13.4
New Mexico	11,875	11,037	10,262	45	22.8	19.3	17.6	20.7
Oklahoma	12,557	12,368	11,655	39	18.8	13.8	13.4	15.5
Texas	13,866	13,523	12,572	34	18.8	15.2	14.7	16.2
Colorado	15,584	15,113	13,847	17	12.3	9.1	10.1	10.8
Idaho	11,868	11,432	10,092	46	13.2	10.3	12.6	16.4
Montana	12,347	11,904	10,546	41	13.6	11.5	12.3	16.3
Utah	11,366	10,743	9,733	49	11.4	8.5	10.3	11.9
Wyoming	12,709	13,230	12,224	38	11.7	8.7	7.9	12.3
California	17,821	16,778	14,487	8	11.1	10.4	11.4	13.4
Nevada	16,366	15,074	13,320	13	9.1	8.8	8.7	12.4
Oregon	14,041	13,217	11,611	31	11.5	8.9	10.7	12.6
Washington	15,599	14,498	12,792	16	10.2	8.5	9.8	11.7
Alaska	18,230	17,744	17,487	5	12.6	6.7	10.7	10.4
Hawaii	15,679	14,691	13,042	15	9.3	7.9	9.9	9.9

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[1] U.S. Department of Commerce, Bureau of Economic Analysis.

[2] U.S. Bureau of the Census, Statistical Abstract of the United States: 1979, table 764, pp. 465 (100th edition), Washington, D.C. 1979. 1969 estimates are from the 1970 census.

[3] Data are also from the 1979 Statistical Abstract of the United States, but estimates are from the Survey of Income and Education.

[4] U.S. Bureau of the Census, Statistical Abstract of the United States: 1982–83, table 732, p. 443. (103d edition.) Washington, D.C. 1982. 1979 estimates are from the 1980 census.

[5] Data from "Poverty Rates in the mid-1980s: An Update," Robert D. Plotnick and Sheldon Danzinger, Institute for Research on Poverty, University of Wisconsin—Madison, Fall 1988.

TABLE 7.—TOTAL U.S. POPULATION, BY AGE GROUP, SELECTED YEARS, 1940–2030

Year	Total	Age						
		0–5	6–15	16–19	20–24	25–44	45–64	65 and over
1940	132,122	12,686	22,704	9,895	11,690	39,868	26,249	9,031
1945	139,928	15,224	21,663	9,362	12,036	42,521	28,680	10,494
1950	152,271	19,125	24,006	8,542	11,680	45,673	30,849	12,397
1955	165,931	22,015	29,232	8,745	10,714	47,195	33,507	14,527
1960	180,671	24,300	34,536	10,684	11,134	47,140	36,203	16,674
1965	194,303	23,913	38,848	13,516	13,746	46,912	38,916	18,452
1970	205,052	20,923	41,059	15,289	17,202	48,473	41,999	20,106
1975	215,973	19,667	38,962	17,016	19,527	54,302	43,801	22,696
1980	227,757	19,639	35,663	17,160	21,584	63,494	44,515	25,704
1981	230,138	20,066	35,055	16,771	21,821	65,619	44,569	26,236
1982	232,520	20,583	34,591	16,255	21,807	67,856	44,602	26,825
1983	234,799	20,964	34,355	15,704	21,700	69,971	44,680	27,425
1984	237,001	21,251	34,236	15,141	21,536	72,049	44,818	27,971
1985	239,279	21,552	34,144	14,819	21,214	74,077	44,934	28,541
1986	241,613	21,757	34,100	14,802	20,608	76,124	45,055	29,168
1987	243,915	21,903	34,034	14,959	19,984	77,897	45,303	29,836
1990 [1]	250,410	22,144	35,276	14,068	18,689	81,822	46,851	31,559
2000 [1]	268,266	20,417	37,715	15,212	17,600	81,060	61,381	34,882
2010 [1]	282,575	20,277	34,907	15,164	19,453	74,774	78,637	39,362
2020 [1]	294,364	20,590	35,254	14,109	17,931	76,691	77,722	52,076
2030 [1]	300,629	19,650	35,217	14,621	17,962	75,556	72,018	65,604
			Percentage composition					
1940	100	9.6	17.2	7.5	8.8	30.2	19.9	6.8
1950	100	12.6	15.8	5.6	7.7	30.0	20.3	8.1
1960	100	13.4	19.1	5.9	6.2	26.1	20.0	9.2
1970	100	10.2	20.0	7.5	8.4	23.6	20.5	9.8
1980	100	8.6	15.7	7.5	9.5	27.9	19.5	11.3
1990	100	8.8	14.1	5.6	7.5	32.7	18.7	12.6
2000	100	7.6	14.1	5.7	6.6	30.2	22.9	13.0
2010	100	7.2	12.4	5.4	6.9	26.5	27.8	13.9
2020	100	7.0	12.0	4.8	6.1	26.1	26.4	17.7
2030	100	6.5	11.7	4.9	6.0	25.1	24.0	21.8
			Percentage growth, 1990 to					
2000	7.1	−7.8	6.9	8.1	−5.8	−0.9	31.0	10.5
2010	12.8	−8.4	−1.0	7.8	4.1	−8.6	67.8	24.7
2020	17.6	−7.0	−0.1	0.3	−4.1	−6.3	65.9	65.0
2030	20.1	−11.3	−0.2	3.9	−3.9	−7.7	53.7	107.9

[1] Projected by Bureau of the Census, Population Division.

Note: Includes Armed Forces overseas. Alaska and Hawaii beginning 1950.

Source: U.S. Department of Commerce, Bureau of the Census.

TABLE 8.—PERCENT OF SELECTED POPULATION GROUPINGS RECEIVING AFDC, DI, UI AND SSI BY REGION/STATE

	Percent of children on AFDC 1984	Percent of people age 25–64 on DI 1985	Percent of people age 25–64 on UI 1985	Percent of people age 25–64 on SSI 1985
New England:				
Maine	10.5	2.6	2.5	2.4
New Hampshire	4.0	1.8	1.0	0.8
Vermont	9.9	2.2	1.9	2.3
Massachusetts	11.2	1.9	2.2	1.8
Rhode Island	12.4	2.8	3.0	2.1
Connecticut	10.9	1.7	1.8	1.2
Middle Atlantic:				
New York	16.6	2.2	2.2	2.6
New Jersey	13.3	2.0	2.4	1.6
Pennsylvania	12.9	2.3	2.8	1.9
East North Central:				
Ohio	14.6	2.3	2.0	1.8
Indiana	7.3	2.3	1.5	1.3
Illinois	15.9	1.8	2.3	1.7
Michigan	18.3	2.4	1.9	2.0
Wisconsin	13.5	2.1	2.3	2.0
West North Central:				
Minnesota	7.9	1.5	1.8	1.1
Iowa	9.7	1.9	1.9	1.3
Missouri	9.6	2.5	1.8	2.0
North Dakota	3.8	1.6	1.6	1.3
South Dakota	5.5	1.9	1.0	1.6
Nebraska	6.2	1.7	1.6	1.3
Kansas	6.8	1.7	1.7	1.3
South Atlantic:				
Delaware	10.7	2.3	1.2	1.6
Maryland	11.4	1.6	1.5	1.6
District of Columbia	33.9	1.7	2.4	3.4
Virginia	7.3	2.1	0.8	1.8
West Virginia	11.7	3.7	2.3	3.3
North Carolina	6.9	2.7	1.8	2.5
South Carolina	9.1	2.9	2.2	3.0
Georgia	10.1	2.7	1.4	3.0
Florida	7.6	2.4	1.2	1.8
East South Central:				
Kentucky	10.1	3.2	1.8	3.4
Tennessee	8.3	2.8	1.9	3.2
Alabama	9.4	3.0	2.1	3.4
Mississippi	14.1	3.7	2.5	4.9
West South Central:				
Arkansas	6.8	3.6	2.1	3.4
Louisiana	11.5	2.5	3.1	3.5
Oklahoma	6.0	2.0	1.6	2.1
Texas	5.0	1.4	1.2	1.6

TABLE 8.—PERCENT OF SELECTED POPULATION GROUPINGS RECEIVING AFDC, DI, UI AND SSI BY REGION/STATE—Continued

	Percent of children on AFDC 1984	Percent of people age 25–64 on DI 1985	Percent of people age 25–64 on UI 1985	Percent of people age 25–64 on SSI 1985
Mountain:				
Montana	5.7	2.1	1.8	1.4
Idaho	3.6	1.8	2.7	1.3
Wyoming	3.6	1.2	1.4	0.6
Colorado	6.4	1.4	1.6	1.2
New Mexico	7.8	2.0	1.8	2.4
Arizona	5.9	2.2	1.5	1.4
Utah	4.0	1.2	1.3	0.9
Nevada	3.8	1.8	1.9	0.7
Pacific:				
Washington	8.9	1.8	2.7	1.6
Oregon	6.6	2.1	2.9	1.3
California	15.5	1.8	2.7	2.9
Alaska	6.2	0.7	4.6	0.8
Hawaii	11.8	1.3	1.9	1.2
National totals	11.3	2.2	2.1	2.1

Source: AFDC (Aid to Families with Dependent Children): Social Security Bulletin, July 1986, Table M–29; Bureau of the Census, Series P–25, No. 998, Table 4 (July 4, 1984).

DI (Disability Insurance): Social Security Bulletin, December 1986, Table Q–10; Bureau of the Census, Series P–25, No. 998, Table 4 (July 1, 1985).

UI (Unemployment Insurance): Social Security Bulletin, June 1986, Table M–35; Bureau of the Census Series P–25, No. 998, Table 4 (July 1, 1985).

SSI (Supplemental Security Income): Office of Supplemental Security Income, Social Security Administration; Bureau of the Census, Series P–25, No. 998, Table 4 (July 1, 1985).

STATE FISCAL CAPACITY ESTIMATES FOR 1986

Each year the Advisory Commission on Intergovernmental Relations (ACIR) tabulates the State-local government revenue collected in each State and estimates the revenue capacity in each State. Tables 9 and 10 summarize the ACIR figures for 1985 and 1986.

Table 9 summarizes the total amount of revenue collected by State-local governments in 1985 and 1986. State-local governments collected $461.7 billion in revenue, which is about 53 percent of the revenue collected by the Federal Government in 1986 and 9.2 percent of the Gross National Product (GNP). Four revenue sources account for 90 percent of State-local government revenue: sales taxes at 28.1 percent; property taxes at 24.2 percent; income taxes at 20.4 percent; and user charges at 17.4 percent.

Table 10 summarizes the ACIR estimates of State fiscal capacity and provides an index of fiscal effort in each State. The first column shows the actual revenue collected by State-local governments in each State during 1986. Ohio, for example, collected about $18.9 billion in State-local revenue in 1986.

The second column of table 10 shows the estimated fiscal capacity in each State under what ACIR calls the "representative revenue system" (RRS). The RRS applies the national average State tax rate, license fee, user charge, etc., to the respective estimated revenue sources in each State. The result is a measure of revenue each State would collect if it used all 30 revenue sources in the RRS and applied the national average State rates or charges to each source. Ohio, for example, had a revenue capacity of $18.9 billion under the RRS.

The third column provides an index of fiscal effort in each State. It is the ratio of revenue collected to revenue capacity expressed as a percent. A State that collects about as much revenue as its revenue capacity will have a ratio around 100. Ohio, for example, has a ratio of 100.1. A State that collects less revenue than its revenue capacity will have an index below 100 and a State that collects more than its revenue capacity will have an index above 100. New York had the highest revenue effort relative to capacity at 140.5 and New Hampshire the lowest revenue effort at 76.5.

TABLE 9.—STATE AND LOCAL GOVERNMENT REVENUE IN 1985 AND 1986

Revenue bases	State-local revenue in billions of dollars		State-local revenue: share of 1986 total in percent
	1985	1986	
General sales and gross receipts taxes	$84.2	$90.6	19.6
Selective sales taxes	37.4	39.2	8.5
Parimutuel	0.7	0.6	0.1
Motor fuel	13.6	14.4	3.1
Insurance	4.5	5.5	1.2
Tobacco	4.4	4.6	1.0
Amusement	0.5	0.6	0.1
Public utilities	10.3	10.0	2.2
Distilled spirits	1.7	1.6	0.3
Beer	1.3	1.3	0.3
Wine	0.3	0.3	0.1
License taxes	11.8	12.9	2.8
Vehicle operator	0.6	0.7	0.2
Corporation	2.8	3.0	0.6
Hunting and fishing	0.6	0.6	0.1
Alcoholic beverages	0.2	0.2	0.1
Automobile	4.5	5.0	1.1
Truck	3.1	3.3	0.7
Personal income taxes	70.1	74.4	16.1
Corporate income taxes	19.0	19.9	4.3
Property taxes	103.9	111.6	24.2
Residential	63.1	71.4	15.5
Farm	4.4	4.1	0.9
Commercial/industrial	27.6	29.1	6.3
Public utilities	8.8	6.9	1.5
Estate and gift taxes	2.4	2.8	0.6

TABLE 9.—STATE AND LOCAL GOVERNMENT REVENUE IN 1985 AND 1986—Continued

Revenue bases	State-local revenue in billions of dollars		State-local revenue: share of 1986 total in percent
	1985	1986	
Severance taxes	7.5	6.4	1.4
Oil and gas	6.6	5.6	1.2
Coal	0.6	0.6	0.1
Nonfuel mineral	0.2	0.1	0.0
Other taxes	13.7	15.7	3.4
Rents and royalties	3.2	7.5	1.6
Mineral leasing	0.5	0.4	0.1
User charges	74.5	80.4	17.4
Total	428.1	461.7	100.0

Source: Advisory Commission on Intergovernmental Relations, Measuring State Fiscal Capacity, 1987 and 1988 Editions.

TABLE 10.—STATE FISCAL CAPACITY ESTIMATES FOR THE REPRESENTATIVE REVENUE SYSTEM IN 1986

[Dollar amount in millions]

State	Revenue collected	Estimated revenue capacity	Ratio of revenue collected to revenue capacity (percent)
Alabama	$5,926	$5,790	102.4
Alaska	4,077	2,931	139.1
Arizona	5,839	6,090	95.9
Arkansas	2,988	3,297	90.6
California	58,298	60,488	96.4
Colorado	6,314	7,197	87.7
Connecticut	7,258	8,480	85.6
Delaware	1,419	1,447	98.0
D.C.	1,896	1,468	129.1
Florida	19,097	22,875	83.5
Georgia	10,584	10,768	98.3
Hawaii	2,275	2,226	102.2
Idaho	1,363	1,456	93.6
Illinois	20,809	21,530	96.7
Indiana	8,827	9,068	97.3
Iowa	5,252	4,592	114.4
Kansas	4,260	4,480	95.1
Kentucky	5,136	5,470	93.9
Louisiana	7,974	8,078	98.7
Maine	1,929	2,061	93.6

TABLE 10.—STATE FISCAL CAPACITY ESTIMATES FOR THE REPRESENTATIVE REVENUE SYSTEM IN 1986—Continued

[Dollar amount in millions]

State	Revenue collected	Estimated revenue capacity	Ratio of revenue collected to revenue capacity (percent)
Maryland	8,995	9,175	98.0
Massachusetts	12,989	13,567	95.7
Michigan	19,152	16,775	114.2
Minnesota	9,162	8,126	112.7
Mississippi	3,551	3,271	108.5
Missouri	7,504	9,179	81.8
Montana	1,384	1,374	100.7
Nebraska	2,881	2,775	103.8
Nevada	1,925	2,518	76.4
New Hampshire	1,617	2,384	67.8
New Jersey	17,246	18,278	94.4
New Mexico	2,725	2,897	94.1
New York	52,146	37,115	140.5
North Carolina	9,376	10,467	89.6
North Dakota	1,239	1,208	102.6
Ohio	18,901	18,877	100.1
Oklahoma	5,509	5,992	91.9
Oregon	4,907	4,770	102.9
Pennsylvania	20,171	20,559	98.1
Rhode Island	1,836	1,807	101.6
South Carolina	5,010	4,980	100.6
South Dakota	1,003	1,049	95.6
Tennessee	6,767	7,520	90.0
Texas	27,055	32,124	84.2
Utah	2,734	2,529	108.1
Vermont	974	1,004	97.0
Virginia	9,905	11,105	89.2
Washington	8,781	8,314	105.6
West Virginia	2,809	2,727	103.0
Wisconsin	10,101	7,904	127.8
Wyoming	1,819	1,527	119.1
United States	461,690	461,690	100.0

Source: Advisory Commission on Intergovernmental Relations, Measuring State Fiscal Capacity, 1988 Edition.

APPENDIX K. QUALITY CONTROL SYSTEMS

In the four major welfare programs, AFDC, SSI, Medicaid, and the food stamp program, the Federal Government and the States have established on-going "quality control" systems. These systems have two goals: correcting faults in program administration that contribute to erroneous payments and reducing the extent of misspent benefit dollars. To these ends, they attempt to: (1) measure the extent and dollar value of "errors" in administration; (2) identify the types and causes of error; and (3) specify and monitor corrective actions taken to eliminate or reduce errors.

Fiscal incentives and sanctions also have been made a part of these systems. States can be held liable for the cost of benefit payments made in excess of federally established error tolerance levels, often referred to as target error rates.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) (P.L. 97-248) included target error rates for AFDC and Medicaid; the 1982 Omnibus Budget Reconciliation Act (P.L. 97-253) also established target error rates for the food stamp program. The AFDC target error rate for fiscal year 1983 was set by the Michel amendment at 4 percent, and was reduced by TEFRA to 3 percent for fiscal year 1984 and thereafter. For Medicaid, a 3-percent target error rate was established for quarters beginning after March 30, 1983. Under Medicaid, prospective fiscal sanctions were authorized to be applied beginning in the second half of fiscal year 1983 for States with error rates exceeding 3 percent. However, errors, which, if corrected, would not have made a difference in the amount of medical assistance paid, are excluded from the calculation.

Under the food stamp law, which became effective at the start of fiscal year 1983, States were required to reduce their error rates by one-third each year, but they also were required to reach 5 percent by fiscal year 1985. The food stamp quality control system was revised by P.L. 100-435, the Hunger Prevention Act of 1988. It was recognized that the 5 percent tolerance level for 1985 was set too low. A total of 48 States were subject to penalties for overpayments under the 5 percent tolerance level in 1985. Accordingly, the act changed the tolerance level effective retroactively beginning in fiscal year 1986 to the lowest national average ever achieved plus 1 percentage point or the current year's national average if it is lower than the prior year's level. It was estimated that this would penalize a much smaller number of States and reduce substantially the sanction amounts per State. However, the act did not resolve the problem for the fiscal years before 1986 when the majority of States still would be penalized. In addition, the act included underpayments as well as overpayments in the definition of errors, and it made changes in the administrative and judicial appeals process.

For AFDC and Medicaid there are no longer any fiscal incentive provisions except in Guam, Puerto Rico, and the Virgin Islands.

For food stamps, the incentive provision is an increase from 50 percent up to 60 percent in the Federal share of administrative costs for States with error rates below 6 percent. For each 0.1 percentage point below 6 percent, a State gets an additional 1 percentage point in its matching rate up to 60 percent.

MEASUREMENT OF ERROR

The core of the four existing quality control systems is the quality control case survey. Each system compiles the results of a statistically valid sample of cases ranging from 40,000 to 80,000 nationwide. For AFDC, food stamps, and SSI, the cases are now selected, and error data compiled, on an annual basis rather than every 6 months as is the case in Medicaid. In the past, AFDC, food stamps, and SSI programs also collected quality control data every 6 months. Each selected case is subjected to a thorough review by quality control personnel, including a full field investigation. This review identifies payments to ineligibles, overpayments, underpayments, the type of error made, the responsibility (recipient versus administering agency) for the error, and, to a limited degree, incorrect denials of aid. Error "rates" are then established for that review period for each State: "caseload" error rates indicate the proportion of ineligible cases, overpaid cases, underpaid cases, and, in some cases, improperly denied cases in the sample caseload; "payment" error rates indicate the extent of erroneous payments as a proportion of total dollars paid out to the sampled caseload. Moreover, information on the sources and types of errors identified in each quality control review is compiled for use in implementing administrative "corrective actions" intended to reduce or eliminate similar errors in the future.

In the AFDC and food stamp systems, quality control error rates quantify the extent to which eligibility and payment errors exist in the State-administered caseloads of these two programs. In the Medicaid system, quality control error rates indicate the extent to which errors as to eligibility, overpayment, claims processing (payment of improper claims), and identification of third-party liability exist in the Medicaid population. And, in the SSI system, quality control error rates illustrate the extent and cost of errors in the federally administered caseload.

The "errors" identified and measured in all four quality control systems range from simple procedural or arithmetical mistakes, to lack of verification or nonreporting of income, to outright recipient fraud. As a result, although quality control error rates and the information behind them do give a picture of the extent to which improper decisions are being made and help administering agencies pinpoint areas where improvement is needed, they do not represent a statistically accurate measure of intentional actions such as fraud. In fact, "agency-caused" procedural errors make up nearly half the errors typically identified in quality control surveys, and "recipient-caused" errors may often be simple mistakes in understanding what is required or failure to provide correct information on a timely basis.

ADMINISTRATION

In the AFDC, Medicaid, and food stamp programs, the quality control systems are operated by State quality control staff under Federal instructions and guidelines. A State's error rate is determined by using findings from both the State's full sample and a Federal subsample. In the SSI program, the entire quality control system is federally operated since it measures the performance of Federal administration. When identifying errors in food stamp and SSI administration, agency and recipient actions are compared to Federal rules; in the AFDC and Medicaid systems, errors are identified through comparison with State operating policies, the State plan and Federal regulations.

The cost of operating quality control systems is carried as a regular administrative cost and is shared by the States and Federal Government, just as any other administrative expense.

CORRECTIVE ACTION

The basic goal of quality control systems is to reduce, over time, the extent and cost of errors in program administration. As part of each system, "corrective action plans" for error reduction are regularly formulated based on the findings of the quality control sample surveys. Corrective actions can range from personnel policy changes or new computer systems, to substantive changes in eligibility rules or procedures for verifying information provided by recipients. Very often, "error-prone" profiles are drawn up from the results of quality control surveys to assist administrators in identifying cases to which particular attention should be paid.

SANCTIONS AND INCENTIVES

Another use of the results of a quality control sample is to determine the degree to which States will be held financially liable for erroneous payments.

In the AFDC, Medicaid, and now food stamp systems, States may be "sanctioned" by being required to pay the Federal Government the Federal cost of improperly issued benefits, as shown by quality control surveys, if they do not keep their error rates below the target rates established by the Tax Equity and Fiscal Responsibility Act for AFDC and Medicaid. The fiscal sanction that may be imposed is the amount of Federal funds misspent above the target error rate. However, while fiscal sanctions have been included in legislation prior to the 1982 laws, they have been waived when States demonstrate that they are making a good faith effort to reduce errors. When waivers are not granted, States have begun to appeal the decision to impose sanctions through administrative channels and the courts. In April 1986, as part of the Consolidated Omnibus Budget Reconciliation Act of 1985, a 2-year moratorium was imposed on the collection of AFDC fiscal sanctions until July 1988, and the Family Support Act of 1988 (P.L. 100–485) extended it until July 1989. The act required the Department of Health and Human Services to conduct a study of the AFDC and Medicaid quality control systems for the purposes of restructuring the system as necessary during the moratorium period. The Department was also required to contract with the National Academy of Sciences to conduct an independent study. The National Academy of Sciences report was transmitted to Congress on February 23, 1988.

SUMMARY OF MAJOR CONCLUSIONS OF THE HHS STUDY

The Department's study concludes that the basic quality control system is sound. The objective of quality control is to avoid errors. The moratorium on collections appears to have suggested to some State administrators that they need not be concerned with payment errors. AFDC erroneous overpayments exploded to $1.1 billion in fiscal year 1986, a $200 million, 25 percent increase over fiscal year 1984. Once States take error tolerances seriously, they will take the steps needed to improve their benefit systems. Collection of fiscal liabilities is an incentive States need to avoid errors.

The study substantiates that the principles and methods of the current quality control systems for measuring payment errors in State AFDC and Medicaid programs are valid and effective. However, the study concludes that improvements to certain aspects of the quality control systems could make good systems even better. The body of the report gives extensive background information on each issue, exhaustively discusses options and the basis for the findings. A brief overview of the major conclusions follows:

- —The current double sampling, dual purpose quality control system provides an appropriate sharing of responsibilities and costs to efficiently achieve the management improvement and fiscal accountability purposes. However, when States have consistently achieved error rates below the threshold and disallowances or incentives are not in the balance, a more economical system of maintenance and selective Federal oversight should be used.
- —The study concludes that there is no valid justification for excluding certain types of eligibility conditions, such as failure to register for the Work Incentive program, from error measurement. All errors which directly affect either eligibility or benefit amounts should be counted in the payment error rate.
- —The QC system should demonstrate a fair, equitable and balanced concern and treatment of all payment accuracy errors, including underpayments, improper denials and incorrect terminations. If feasible after further study of measuring payment error rates for improper denials and terminations, this could be accomplished by combining these rates with the overpayment error rates and establishing a new absolute error threshold.
- —To stimulate further error reduction and provide a balance to disallowances, fiscal incentives should be paid to States for outstanding payment accuracy performance.
- —The QC system uses the point estimate of the payment error rate to compute incentives and disallowances. The study finds that this is the best and fairest method to all parties over time.
- —The study finds that expenditures should be reduced by child support and third party liability collections which have been returned to the Federal government before calculating disal-

lowances. However, since State reporting does not permit a breakdown of other types of overpayment recoveries, adjustment of these amounts could not presently be made.

DETAILED RECOMMENDATIONS OF THE NATIONAL ACADEMY OF SCIENCES

Recommendation 1.—The Federal sampling and measurement activities for monitoring payment accuracy in AFDC and Medicaid should be made independent of State quality improvement activities. Federal estimates for payment accuracy should be based on one Federal review sample with one review of case records by Federal QC reviewers, giving one estimate of State error rates.

Recommendation 2.—Payment accuracy and other measures of program quality should be set against broad program objectives, beginning with the language of intent in titles IVA and XIX of the Social Security Act. Self-sufficiency and improved health status, although difficult to measure, are important broad objectives. These and other measures of program effectiveness, particularly those that might ultimately be used as performance standards, should be assessed.

Recommendation 3.—States should develop quality improvement systems. The Federal Government should strengthen the ways in which it helps states to develop and maintain those systems. It should provide technical expertise and financial and regulatory support to facilitate the design of process control tools and the rigorous evaluation of program and process design. OFA and HCFA activities should include randomized experiments with innovative practices and interagency cross-program effects. The Federal Government should disseminate the results of those studies; States should share information with other States.

Recommendation 4.—(a) Congress should require that State welfare agencies for 5 years spend as much money (adjusted for inflation) on quality improvement as they did in 1987 on quality control. (b) Congress should separately authorize and fund demonstrations to support the transition from quality control to quality improvement and to ensure close scrutiny of State implementation. (c) During this 5-year period, HHS should develop standards for expanding the scope and specificity of quality improvement measures to which states can be held accountable. (d) OFA and HCFA should report to Congress on the results of these activities and on evaluations of State efforts and recommend levels of support and other requirements for subsequent quality improvement activities at the end of the 5-year period.

Recommendation 5.—Financial incentives should include rewards and penalties for measured performance. Rewards and penalties should be calculated as proportions of the Federal benefit dollars at stake. OFA and HCFA should monitor the consequences of sanctions. Congress and HHS should take steps to minimize potentially harmful effects on program administration and program objectives, for example, by appropriate structuring of payment schedules for sanctions.

Recommendation 6.—HHS should establish a special fund to support technical assistance to States that experience serious performance problems in administering AFDC or Medicaid. Technical assistance should include help at sufficient levels from experts inside and outside of government and free from regional office constraints.

Recommendation 7.—For purposes of financial accountability, HHS should estimate payment inaccuracy in ~~the~~ AFDC and Medicaid programs as a weighted average of four distinct-payment error rates: (a) payments to ineligible recipients; (b) overpayments to eligible recipients; (c) underpayments to eligible recipients; and (d) payments that should have been made to applicants or recipients who were wrongly denied or terminated. Each of the four payment error rates should have as the denominator the total value of the payments actually made. The numerator should be the total value of errors for each component. The panel believes that each of the four types of error is important and should be accorded an appropriate weight.

Recommendation 8.—For financial accountability purposes. OFA- and HCFA-approved State plans for the AFDC and Medicaid programs should constitute the criteria against which States are evaluated. When Congress, OFA, and HCFA make legislative and regulatory changes in the programs, states should be allowed time for implementing those changes before errors arising from them are counted.

Recommendation 9.—In order to take account of State-to-State differences in caseload composition, OFA and HCFA should set performance thresholds for AFDC and for Medicaid, respectively, for groups that are differentially prone to error. Thresholds applied to States should be adjusted to reflect those differences. OFA and HCFA should first examine the possibility of using at least three groups as likely candidates for such corrections at this time: all households with reported earnings, all nonearning households with one or more elderly recipient(s), and all other households.

Recommendation 10.—Under the new system that the panel recommends, HHS should establish a process to accommodate State differences with federal findings of payment inaccuracies in AFDC and Medicaid and should establish procedures for the timely resolution of differences through the national office with respect to those findings.

Recommendation 11.—As a means of making continual improvements toward reducing measurement error, Federal agencies should rigorously and regularly assess the level of measurement errors as well as the degree of bias arising from failure to complete case reviews.

Recommendation 12.—HHS should routinely report estimates of sampling errors for all performance estimates based on sample data.

Recommendation 13.—HHS should design samples for the purpose of estimating payment inaccuracy rates to achieve equal precision across States.

Recommendation 14.—HHS should eliminate as quickly as possible the backlog of sanctions to be applied. It should do so by combining the error rates for all states for a given year and program into a single distribution of rates and identifying for sanctions only those States whose error rates are extremely large—or outlying—

in relation to that distribution. Determining the threshold for identifying extremely large error rates for any distribution of State error rates is a policy choice.

Table 1 depicts the estimated AFDC sanction amounts and collection schedule according to the Department of Health and Human Services and the Congressional Budget Office. HHS assumes that the entire estimated sanction for fiscal years 1981 through 1984 will be collected beginning by the end of fiscal year 1990. CBO delays collection and assumes that waivers or judicial appeals will be eliminated for some of the estimated sanction amount.

Food stamp program incentive payments are made as increases in the Federal share of State administrative expenses—from the normal 50 percent up to 60 percent where the cumulative error rate is less than 6 percent. The food stamp incentive payment requirements also stipulate that the rate of improper denials must fall below a Federal tolerance level in order for an incentive payment to be made on the basis of low or rapidly reducing rates of erroneous payment.

Table 2 summarizes national payment error rates for the four major welfare programs over recent quality control review periods. Table 3 shows the historical trend in the AFDC error rate beginning in 1973.

For AFDC, the national average payment error rate has remained well above the target rate of 3.0 percent. Food stamp program quality control data also show error rates well above the legislated target levels. However, the Medicaid program has shown declining error rates.

TABLE 1.—AFDC SANCTION AMOUNTS AND ESTIMATED COLLECTION SCHEDULE

Year errors were made	Estimated sanction amount (in millions)	HHS and CBO projected schedules for collecting sanctions	
		HHS estimate	CBO estimate
Fiscal year:			
1981	[1] $69		
1982	[1] 96		
1983	[1] 184		
1984	[1] 230		
1985	248	0	0
1986	348	0	0
1987	300	0	0
1988	274	0	0
1989	245	$63	0
1990	216	516	0
1991	195	896	$388
1992	172	735	602
1993	148	195	184
1994	122	172	164
Total	2,847	2,577	1,338

[1] Disallowance notices issued to States. Amount reflects waivers by Secretary of HHS.

Source: Department of Health and Human Services and Congressional Budget Office. Compiled by committee staff.

TABLE 2.—SUMMARY OF NATIONAL OVERPAYMENT ERROR RATES BY PROGRAM

	AFDC	Medicaid [1]	Food stamps [2]	SSI
October 1979–March 1980	8.3	5.2	10.2	5.0
April 1980–September 1980	7.3	5.0	8.9	4.9
October 1980–March 1981	8.3	4.0	10.5	5.3
April 1981–September 1981	7.0	3.0	9.1	4.9
October 1981–March 1982	7.2	2.7	9.9	4.8
April 1982–September 1982	6.6	[3] 2.9	9.2	4.1
October 1982–March 1983	6.2	[3] 2.6	8.2	4.1
April 1983–September 1983	6.8	[3] 2.9	8.5	3.6
October 1983–March 1984	6.2	[3] 2.5	[4] 8.6	[3] 3.3
April 1984–September 1984	5.7	[3] 2.9	[4] 8.6	[4] 3.3
Fiscal year 1985	6.1	NA	8.3	[3] 3.3
Fiscal year 1986	7.1	NA	8.1	3.9
Fiscal year 1987	NA	NA	7.6	NA

[1] The error rates for the periods between October 1979 and March 1981 have been adjusted to reflect the new payment error rate definition implemented in April 1981.

[2] Overpayment dollar error rate only. Source: Official Federally corrected rates, General Accounting Office.

[3] The Medicare Catastrophic Coverage Act of 1988 (P.L. 100–360) retroactively modified the calculation of Medicaid error rates back to 1982. The Health Care Financing Administration (HCFA) has not as yet completed the recalculation of these error rates.

[4] The food stamps and SSI error rates are no longer calculated for a 6-month period, but for a fiscal year. These statistics are for fiscal year 1984.

NA = Not available.

Note: Overpayment errors include payments made to ineligible families but do not include underpayments.

Source: Department of Health and Human Services and U.S. Department of Agriculture. Compiled by committee staff.

TABLE 3.—HISTORICAL TRENDS IN THE AFDC ERROR RATE, 1973–85

Period	Percent	Period	Percent
April–September 1973	16.5	October–March 1980	8.3
January–June 1974	14.8	April–September 1980	7.3
July–December 1974	13.6	October–March 1981	8.3
January–June 1975	12.0	April–September 1981	7.0
July–December 1975	10.2	October–March 1982	7.2
January–June 1976	9.6	April–September 1982	6.6
July–December 1976	8.5	October 1982–March 1983	6.2
January–June 1977	8.6	April 1983–September 1983	6.8
July–December 1977	8.7	October 1983–March 1984	6.2
January–June 1978	10.5	April 1984–September 1984	5.7
April–September 1978	9.4	Fiscal year 1985	6.1
October–March 1979	10.4	Fiscal year 1986	7.1
April–September 1979	9.5		

Source: Department of Health and Human Services, Office of Family Assistance.

HISTORICAL PERSPECTIVE OF QUALITY CONTROL IN THE AFDC PROGRAM

In the early 1960's, as AFDC costs and caseloads began to grow, Congress requested that the Department of Health, Education, and Welfare verify AFDC expenditures. In response to this request, the Department developed an on-going system to validate eligibility and benefits and to serve as a management tool to improve the accuracy of the eligibility and benefit determination process. This evolved into the current quality control system. Table 4 shows State payment errors over time.

In 1973, regulations were issued establishing error tolerance levels of 3 percent on errors resulting from ineligibility and 5 percent on under and overpayments. Any erroneous payments made by the State above these amounts would be disallowed. These tolerances, which were not established by statute, were challenged in court as being arbitrary and capricious by the State of Maryland (*Mathews* v. *Maryland*). The court ruled in Maryland's favor (1978).

On March 7, 1979, the Department issued new regulations establishing error rate limits based on the national average of error rates. The March 7 regulations also included a "good cause" provision enabling the Secretary to waive disallowances based on the State's failure to meet the limit. The March 7 regulation and the threat of disallowances were effective in getting States to implement corrective action. Disallowances were temporarily suspended if States submitted negotiated corrective action plans. No disallowances were taken.

In 1979 the Michel amendment was attached to the Labor, HHS and Education fiscal year 1980 appropriation bill. This amendment required each State to reach a payment error rate of 4 percent by September 30, 1983. In January 1980 the Department issued the following rules implementing the Michel requirements: States were required to make one-third progress toward the 4 percent goal in fiscal year 1981; two-thirds progress toward the goal in fiscal year 1982; and to attain 4 percent in fiscal year 1983.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) included further AFDC error rate reduction requirements. TEFRA requires States to move from the 4 percent standard established by the Michel amendment to a 3 percent standard in fiscal year 1984. In addition, the Consolidated Omnibus Budget Reconciliation Act of 1985 established a moratorium on the collection of fiscal sactions. That moratorium expired on July 1, 1988, but was extended by the Family Support Act of 1988 until July 1, 1989.

Table 4 shows the State error rates for fiscal years 1980–86. States exceeding the target for a given year are indicated. For several years, HHS delayed notifying States of the disallowance amounts for each of these years until new regulations governing the waiver process were issued. However, the regulations were finally issued in proposed form on February 2, 1987; final regulations have not been issued. All States have requested waivers of the penalties for fiscal years 1981–84. HHS has issued decisions only with respect to the fiscal years 1981 through 1984 penalties. Waivers were granted only in fiscal years 1981 and 1984.

TABLE 4.—AFDC ERROR RATES FOR BASE PERIOD AND FISCAL YEARS 1980–86

	April–September 1978	1980	1981	1982	1983	1984	1985	1986
U.S. average	9.4	7.8	7.6	6.9	6.5	6.0	6.1	7.1
Alabama [3]	9.5	7.1	[1] 7.7	5.4	3.2	[1] 4.4	[1] 3.8	[1] 4.2
Alaska [3]	31.2	13.9	18.2	12.1	[1] 15.6	[1] 6.8	[1] 10.5	[1] 5.5
Arizona [2]	8.0	8.7	[1] 8.3	[1] 11.6	[1] 10.0	[1] 9.7	[1] 8.9	[1] 11.3
Arkansas	9.1	7.6	6.8	[1] 7.0	[1] 4.8	[1] 3.8	3.0	[1] 3.8
California	3.7	5.7	[1] 6.8	[1] 6.0	[1] 4.9	[1] 5.0	[1] 5.9	[1] 8.1
Colorado	4.3	11.6	[1] 8.2	[1] 6.6	[1] 6.2	[1] 4.6	[1] 5.5	[1] 3.3
Connecticut [3]	8.6	6.3	[1] 7.4	[1] 6.4	[1] 4.4	[1] 3.4	[1] 4.7	[1] 4.0
Delaware	16.1	8.0	11.3	[1] 11.9	[1] 9.4	[1] 7.8	[1] 7.1	[1] 6.5
District of Columbia	22.4	12.5	13.6	[1] 17.1	[1] 13.1	[1] 11.2	[1] 9.9	[1] 10.0
Florida	5.6	6.1	[1] 7.9	[1] 6.0	[1] 4.5	[1] 5.4	[1] 5.7	[1] 9.0
Georgia	7.8	8.1	6.5	5.1	[1] 5.8	[1] 6.2	[1] 7.6	[1] 7.4
Hawaii	9.2	9.0	[1] 10.1	[1] 8.2	[1] 6.9	[1] 6.7	[1] 6.3	[1] 3.9
Idaho	4.4	9.0	[1] 9.1	[1] 5.4	3.0	[1] 9.2	[1] 3.9	[1] 4.0
Illinois	17.1	8.1	8.3	8.2	[1] 6.8	[1] 6.5	[1] 7.3	[1] 9.0
Indiana	1.7	4.5	[1] 4.1	3.9	[1] 4.9	[1] 4.0	[1] 4.7	[1] 5.4
Iowa	7.8	4.2	4.3	4.5	3.4	[1] 3.7	[1] 4.9	[1] 6.1
Kansas	4.1	5.8	[1] 8.1	2.8	[1] 4.9	[1] 5.5	[1] 5.1	[1] 4.3
Kentucky	10.2	5.4	5.0	3.6	3.1	[1] 4.1	[1] 3.2	[1] 3.0
Louisiana	11.1	6.8	6.7	6.2	[1] 5.7	[1] 5.8	[1] 7.2	[1] 4.8
Maine	9.2	6.6	[1] 7.9	4.1	[1] 4.5	[1] 4.1	[1] 5.7	[1] 4.4
Maryland [2] [3]	13.6	12.7	[1] 11.6	[1] 8.2	[1] 5.3	[1] 5.7	[1] 7.1	[1] 9.2
Massachusetts	15.9	12.5	9.3	7.4	[1] 11.4	[1] 7.8	[1] 3.6	[1] 3.3
Michigan	9.2	7.7	7.3	[1] 8.2	[1] 9.1	[1] 8.0	[1] 6.6	[1] 6.7
Minnesota	3.4	3.3	[1] 4.4	3.0	2.6	2.0	2.8	[1] 3.0
Mississippi	11.6	7.4	6.9	4.7	3.5	2.0	2.8	[1] 3.7
Missouri	10.1	7.3	7.1	4.8	3.4	[1] 3.7	[1] 3.9	[1] 3.6
Montana	9.7	10.2	4.9	2.5	2.5	[1] 6.9	[1] 7.5	[1] 5.7
Nebraska	4.6	4.9	[1] 5.5	[1] 9.6	[1] 4.7	[1] 6.9	[1] 7.9	[1] 7.5
Nevada	0.6	1.2	2.3	1.3	2.7	2.1	2.6	2.2
New Hampshire	11.0	11.0	6.6	5.9	[1] 4.3	[1] 7.5	[1] 5.2	[1] 5.0
New Jersey [2]	9.3	10.4	[1] 8.0	[1] 7.3	[1] 6.4	[1] 5.1	[1] 6.3	[1] 7.5
New Mexico	4.8	7.3	[1] 12.4	[1] 10.5	[1] 6.1	[1] 6.2	[1] 5.7	[1] 5.9
New York	8.8	8.3	[1] 8.0	[1] 8.0	[1] 9.4	[1] 7.1	[1] 7.4	[1] 9.5
North Carolina	7.9	5.6	5.4	3.3	2.7	[1] 3.5	2.2	2.5
North Dakota	1.6	6.0	3.1	1.9	2.1	[1] 4.7	1.2	1.8
Ohio	9.5	8.7	[1] 8.9	[1] 7.6	[1] 5.6	[1] 6.4	[1] 6.6	[1] 9.4
Oklahoma [4]	3.2	4.4	[1] 6.6	3.8	[1] 4.1	3.0	2.8	[1] 3.9
Oregon	12.7	4.5	6.8	6.4	[1] 5.5	[1] 4.6	[1] 3.8	[1] 4.1

TABLE 4.—AFDC ERROR RATES FOR BASE PERIOD AND FISCAL YEARS 1980–86—Continued

	April–September 1978	1980	1981	1982	1983	1984	1985	1986
Pennsylvania	16.3	9.8	9.0	[1] 8.5	[1] 9.1	[1] 9.1	[1] 6.6	[1] 5.6
Rhode Island	12.7	8.9	6.3	5.7	[1] 6.2	[1] 3.7	[1] 4.6	[1] 7.2
South Carolina [2]	7.1	7.3	[1] 7.8	[1] 8.9	[1] 7.1	[1] 7.8	[1] 7.0	[1] 7.9
South Dakota	4.8	5.2	[1] 4.6	3.7	2.1	2.9	1.5	2.5
Tennessee	7.0	7.0	[1] 8.9	4.9	[1] 4.3	[1] 4.3	[1] 3.4	[1] 5.3
Texas	6.9	7.6	[1] 7.5	[1] 8.4	[1] 7.0	[1] 5.7	[1] 4.3	[1] 7.5
Utah [2]	2.8	7.1	[1] 4.9	[1] 5.0	[1] 5.7	[1] 5.8	[1] 4.5	[1] 4.5
Vermont [2]	4.5	11.4	[1] 5.2	[1] 4.5	[1] 7.9	[1] 5.8	[1] 5.7	[1] 7.1
Virginia	11.7	5.0	3.6	4.1	3.8	[1] 3.5	[1] 3.4	[1] 3.4
Washington	6.7	9.0	[1] 9.3	[1] 6.4	[1] 4.8	[1] 4.1	[1] 5.1	[1] 4.6
West Virginia	11.3	6.1	7.4	[1] 8.2	3.0	4.8	[1] 5.8	[1] 6.1
Wisconsin	11.1	7.9	8.2	[1] 6.5	[1] 5.1	[1] 6.6	[1] 8.6	[1] 6.3
Wyoming	4.0	13.8	[1] 13.7	[1] 4.8	[1] 7.7	[1] 5.6	[1] 3.0	[1] 4.0
Puerto Rico [4]	7.8	7.6	[1] 8.9	[1] 8.9	[1] 8.6	[1] 7.7	[1] 6.3	[1] 5.7
Guam [4]	NA	NA	NA	NA	[1] 19.8	[1] 21.9	[1] 14.2	[1] 11.5
Virgin Islands	11.2	NA	6.9	4.6	[1] 8.6	2.4	[1] 4.2	[1] 4.4
Total number of States subject to disallowance			28	27	40	49	46	49

[1] Error rate exceeds target.

[2] Granted waiver of fiscal year 1981 disallowance.

[3] Granted waiver of fiscal year 1984 disallowance.

[4] Excused of fiscal year 1984 disallowance.

Source: Department of Health and Human Services, Office of Family Assistance.

Table 5 shows the AFDC quality control target error rates each State must meet in order to avoid disallowances for fiscal years 1981, 1982, 1983, and later years. Effective in 1984, the target error rate in all States is 3 percent. However, it is 4 percent for Guam, Puerto Rico, and the Virgin Islands.

Table 6 displays the AFDC disallowances for fiscal years 1981 through 1986. Disallowances sum to nearly $1.2 billion. Three States, California, Michigan, and New York, account for 51 percent of the disallowances. Also, 70 percent of the disallowances are in 1984, 1985, and 1986 when the more stringent 3 percent target error rate was in effect.

Tables 7, 8, and 9 break down AFDC quality control error rates into various components. Table 7 shows that the major source of payment errors is from errors in reporting of income. Table 8 indicates that about 1 percentage point of the national average AFDC error rate is due to procedural or "technical" errors. Table 9 displays the proportion of errors coming from the agency versus the client. The national average splits almost equally between clients and the agencies.

Table 10 displays the disposition of applications for AFDC from 1974 through 1986. Since 1979, there has been a dramatic 6.4 percentage point increase in the share of applications denied.

Table 11 summarizes the reasons for denial of AFDC benefits for the fourth quarter of fiscal year 1986. About 62 percent of the cases were denied because of "failure to comply with procedural requirements."

TABLE 5.—AFDC TARGET ERROR RATES BEGINNING IN FISCAL YEAR 1981

[In percent]

	1981	1982	1983	Later years
Alabama	7.6	5.8	4.0	3.0
Alaska	22.1	13.1	4.0	3.0
Arizona	6.7	5.3	4.0	3.0
Arkansas	7.4	5.7	4.0	3.0
California	4.0	4.0	4.0	3.0
Colorado	4.2	4.1	4.0	3.0
Connecticut	7.1	5.5	4.0	3.0
Delaware	12.0	8.0	4.0	3.0
D.C.	16.3	10.1	4.0	3.0
Florida	5.1	4.5	4.0	3.0
Georgia	6.5	5.3	4.0	3.0
Guam	NA	NA	4.0	4.0
Hawaii	7.5	5.7	4.0	3.0
Idaho	4.3	4.1	4.0	3.0
Illinois	12.7	8.4	4.0	3.0
Indiana	4.0	4.0	4.0	3.0
Iowa	6.5	5.3	4.0	3.0
Kansas	4.1	4.0	4.0	3.0
Kentucky	8.1	6.1	4.0	3.0
Louisiana	8.7	6.4	4.0	3.0
Maine	7.5	5.7	4.0	3.0
Maryland	10.4	7.2	4.0	3.0
Massachusetts	11.9	8.0	4.0	3.0
Michigan	7.5	5.7	4.0	3.0
Minnesota	4.0	4.0	4.0	3.0
Mississippi	9.0	6.5	4.0	3.0
Missouri	8.1	6.0	4.0	3.0
Montana	7.8	5.9	4.0	3.0
Nebraska	4.4	4.2	4.0	3.0
Nevada	4.0	4.0	4.0	3.0

TABLE 5.—AFDC TARGET ERROR RATES BEGINNING IN FISCAL YEAR 1981—Continued

[In percent]

	1981	1982	1983	Later years
New Hampshire	8.7	6.3	4.0	3.0
New Jersey	7.5	5.8	4.0	3.0
New Mexico	4.5	4.3	4.0	3.0
New York	7.2	5.6	4.0	3.0
North Carolina	6.6	5.3	4.0	3.0
North Dakota	4.0	4.0	4.0	3.0
Ohio	7.7	5.8	4.0	3.0
Oklahoma	4.0	4.0	4.0	3.0
Oregon	9.8	6.9	4.0	3.0
Pennsylvania	12.2	8.1	4.0	3.0
Puerto Rico	6.6	5.3	4.0	4.0
Rhode Island	9.8	6.9	4.0	3.0
South Carolina	6.1	5.0	4.0	3.0
South Dakota	4.5	4.3	4.0	3.0
Tennessee	6.0	5.0	4.0	3.0
Texas	5.9	5.0	4.0	3.0
Utah	4.0	4.0	4.0	3.0
Vermont	4.3	4.2	4.0	3.0
Virginia	9.1	6.4	4.0	3.0
Virgin Islands	8.8	6.6	4.0	4.0
Washington	5.8	4.9	4.0	3.0
West Virginia	8.9	6.4	4.0	3.0
Wisconsin	8.7	6.4	4.0	3.0
Wyoming	4.0	4.0	4.0	3.0

Source: Family Support Administration, U.S. Department of Health and Human Services.

TABLE 6.—POTENTIAL AFDC DISALLOWANCES FOR FISCAL YEARS 1981–86

[Dollars in thousands]

State	1981	1982	1983	1984	1985	1986	Total	Percent of total
Alabama	$47	0	0	0	$384	$610	$1,041	0.09
Alaska	0	0	$1,747	0	1,570	584	3,901	.33
Arizona	0	$1,091	2,366	$2,846	2,476	4,205	12,984	1.11
Arkansas	0	323	192	231	0	286	1,032	.09
California	35,067	27,155	12,705	32,344	48,774	91,762	247,807	21.14
Colorado	1,898	1,130	1,151	868	1,240	184	6,471	.55
Connecticut	313	854	436	0	1,915	1,118	4,636	.40
Delaware	0	553	731	660	539	433	2,916	.25
District of Columbia	0	3,014	3,663	3,066	2,642	2,682	15,067	1.29
Florida	3,467	1,783	726	3,412	3,962	8,773	22,123	1.89
Georgia	0	0	2,201	4,253	6,129	6,530	19,113	1.63
Guam	0	0	500	0	349	223	1,072	.09
Hawaii	1,212	1,084	1,258	1,513	1,315	341	6,723	.57
Idaho	691	169	0	864	115	128	1,967	.17
Illinois	0	0	11,598	14,750	18,603	26,485	71,436	6.09
Indiana	113	0	704	879	1,546	2,262	5,504	.47
Iowa	0	0	0	581	1,653	3,112	5,346	.46
Kansas	1,903	0	451	1,094	916	613	4,977	.42
Kentucky	0	0	0	1,090	158	0	1,248	.11
Louisiana	0	0	1,491	2,606	4,158	1,818	10,073	.86
Maine	168	0	245	559	1,477	811	3,260	.28

Maryland	0	1,094	1,426	0	4,919	7,734	15,173	1.29
Massachusetts	0	0	16,577	9,674	1,283	782	28,316	2.42
Michigan	0	13,306	29,117	30,831	21,760	25,899	120,913	10.32
Minnesota	571	0	0	0	0	72	643	.05
Mississippi	0	0	0	0	0	426	426	.04
Missouri	0	0	0	850	1,088	715	2,653	.23
Montana	0	0	0	682	930	666	2,278	.19
Nebraska	280	1,521	209	1,253	1,643	1,587	6,493	.55
Nevada	0	0	0	0	0	0	0	0
New Hampshire	0	0	48	583	265	215	1,111	.09
New Jersey	0	4,020	5,887	5,228	8,365	11,409	34,909	2.98
New Mexico	2,554	1,930	640	1,113	989	1,032	8,258	.70
New York	6,270	19,812	47,550	39,382	44,792	68,552	226,358	19.31
North Carolina	0	0	0	500	0	0	500	.04
North Dakota	0	0	0	164	0	0	164	.01
Ohio	3,930	5,895	5,787	13,602	15,283	30,180	74,677	6.37
Oklahoma	1,508	0	25	0	0	546	2,079	.18
Oregon	0	0	769	907	476	823	2,975	.25
Pennsylvania	0	1,797	21,219	24,588	15,119	11,382	74,105	6.32
Puerto Rico	1,714	1,750	2,210	0	1,104	831	7,609	.65
Rhode Island	0	0	857	289	704	1,879	3,729	.32
South Carolina	0	2,072	1,656	2,625	2,603	3,661	12,617	1.08
South Dakota	13	0	0	0	0	0	13	0
Tennessee	1,754	0	172	747	284	1,636	4,593	.39
Texas	1,112	2,139	2,119	2,754	1,601	6,720	16,445	1.40
Utah	0	325	614	993	540	604	3,076	.26
Vermont	0	94	971	784	720	1,086	3,755	.31

TABLE 6.—POTENTIAL AFDC DISALLOWANCES FOR FISCAL YEARS 1981–86—Continued

[Dollars in thousands]

State	1981	1982	1983	1984	1985	1986	Total	Percent of total
Virginia	0	0	$102	$424	$4	$8	$538	.05
Virgin Islands	0	0	0	0	346	406	752	.06
Washington	$4,162	$1,827	1,047	1,652	3,509	2,952	15,149	1.29
West Virginia	0	691	0	957	1,681	2,396	5,725	.49
Wisconsin	0	295	2,966	10,670	17,829	11,207	42,967	3.67
Wyoming	413	33	206	155	2	82	891	.08
U.S. total	69,160	95,757	184,339	223,025	247,760	348,451	1,168,492	99.70
Percent of total	5.90	8.17	15.73	19.03	21.14	29.73	99.70	....

Note: Waivers were granted in 1981 and 1984. Figures for 1985 and 1986 are estimates.

Source: U.S. Department of Health and Human Services, Family Support Administration.

TABLE 7.—MAJOR TYPES OF AFDC ERRORS BY STATE, OCTOBER 1984–SEPTEMBER 1985 PROGRAM AREA IN ERROR, AS A PERCENT OF TOTAL EXPENDITURES IN ERROR [1]

State	Percent of total expenditures in error				
	Basic program requirements [2]	Resources [3]	Income [4]	Need requirements [5]	Other
Total [6]	39.7	11.3	43.5	4.0	1.4
Alabama	17.3	6.3	76.4		
Alaska	42.6	11.8	45.6		
Arizona	33.5	8.2	54.3	3.2	0.8
Arkansas	36.2	9.6	26.3		2.2
California	41.3	14.7	41.4	2.0	0.6
Colorado	31.7	2.8	63.3	1.8	0.3
Connecticut	35.7	25.7	37.6	0.3	0.7
Delaware	16.6	24.1	53.5		5.7
District of Columbia	26.1		72.0	0.3	1.7
Florida	23.9	8.0	62.5	3.2	2.4
Georgia	18.5	1.1	79.0		1.4
Guam	51.3	19.0	14.7	12.1	2.9
Hawaii	32.7	10.8	42.9	12.4	1.3
Idaho	33.4		43.1	14.4	9.2
Illinois	34.0	4.4	60.8	0.1	0.8
Indiana	32.5	9.4	50.2	6.6	1.3
Iowa	27.2	14.1	56.0	1.6	1.1
Kansas	40.6	18.6	31.7	9.2	
Kentucky	31.7	9.6	53.0	4.6	1.2
Louisiana	20.7	14.4	63.9		1.0
Maine	49.6	14.0	35.5	0.7	0.2
Maryland	30.2	7.9	59.7	0.2	2.0
Massachusetts	19.3	20.6	60.0	0.1	
Michigan	36.0	13.0	33.4	14.4	3.3
Minnesota	41.7	5.8	50.6	0.1	1.7
Mississippi	18.2	22.0	53.7		6.1
Missouri	17.9	14.7	64.5		2.9
Montana	43.4	7.8	40.3		8.5
Nebraska	37.0	5.3	47.9		9.8
Nevada					100.0
New Hampshire	7.4	18.0	58.6	9.8	6.2
New Jersey	48.4	12.0	38.2		1.5
New Mexico	21.1	15.0	54.1	2.7	7.2
New York	57.2	1.6	27.8	13.1	0.4

TABLE 7.—MAJOR TYPES OF AFDC ERRORS BY STATE, OCTOBER 1984–SEPTEMBER 1985 PROGRAM AREA IN ERROR, AS A PERCENT OF TOTAL EXPENDITURES IN ERROR [1]—Continued

State	Percent of total expenditures in error				
	Basic program requirements [2]	Resources [3]	Income [4]	Need requirements [5]	Other
North Carolina	29.3	8.2	59.8		2.8
North Dakota	66.7		33.3		
Ohio	36.5	13.1	49.6	0.1	0.7
Oklahoma	44.3		53.8		1.9
Oregon	23.5	9.8	54.4	5.0	7.3
Pennsylvania	43.9	15.9	38.1	1.3	0.7
Puerto Rico	36.3	2.9	50.5	8.8	1.5
Rhode Island	45.3	31.0	22.6		1.2
South Carolina	29.3	5.6	63.1	0.1	1.8
South Dakota	48.3		30.4	21.3	
Tennessee	34.2	7.4	58.2		0.2
Texas	16.1	15.4	68.4		0.1
Utah	47.9	22.3	28.8	1.0	
Vermont	28.3	25.1	21.8	17.8	7.0
Virgin Islands	22.7	10.3	67.0		
Virginia [7]	29.3	17.0	50.5		3.3
Washington	45.2	11.4	40.0	0.7	2.6
West Virginia	31.0	31.2	31.1	6.3	0.4
Wisconsin	61.6	15.4	21.5		1.5
Wyoming	46.8	9.8	33.6	7.2	2.7

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[1] Includes ineligible and eligible cases receiving incorrect payments.

[2] Basic program requirements: age, school attendance, living with a specified relative, deprivation (incapacity, continued absences, unemployment); WIN program registration, citizenship and alienage, residence, social security number, child support (assignment and cooperation), and monthly report.

[3] Resource items: real property; life insurance; bank deposits or cash on hand; motor vehicle; other.

[4] Income items: earned income, work incentive exemptions; mandatory deductions; work-related expenses; deemed income disregards; RSDI benefits; veterans benefits; unemployment compensation; workmen's compensation; support payment made to IV–D agency contributions; non-earned income disregards; deemed income.

[5] Need requirement items: shelter only, fuel and/or utilities only; basic budgetary allowance(s) other than shelter, fuel and utilities; shelter combined with fuel and/or utilities; shelter and other basic budgetary allowances (excluding fuel and utilities); all basic budgetary allowances (excluding fuel and utilities); all basic budgetary allowances; special diet; transportation; child care; other.

[6] Percentages are weighted by the proportion of each State's average caseload to the national average.

[7] Data incomplete.

Source: Department of Health and Human Services, Family Support Administration, Office of Family Assistance, January 1987.

TABLE 8.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING PROCEDURAL ERRORS, FISCAL YEAR 1982

State	Official error rate	Rate excluding procedural errors [1]	Difference [2]
U.S. total	6.9	5.7	1.2
Alabama	5.4	4.4	1.0
Alaska	12.1	11.8	0.3
Arizona	11.6	10.3	1.3
Arkansas	7.0	6.8	0.2
California	6.0	4.3	1.7
Colorado	6.6	5.6	1.0
Connecticut	6.4	6.0	0.4
Delaware	11.9	9.8	2.0
District of Columbia	17.1	12.9	4.2
Florida	6.0	5.6	0.5
Georgia	5.1	4.9	0.3
Guam			
Hawaii	8.2	7.1	1.1
Idaho	5.4	5.2	0.3
Illinois	8.2	7.1	1.1
Indiana	3.9	3.5	0.4
Iowa	4.5	4.2	0.3
Kansas	2.8	2.7	0.1
Kentucky	3.6	3.0	0.5
Louisiana	6.2	5.6	0.6
Maine	4.1	3.4	0.7
Maryland	8.2	7.2	1.0
Massachusetts	7.4	6.9	0.5
Michigan	8.2	7.5	0.7
Minnesota	3.0	2.8	0.3
Mississippi	4.7	4.6	0.2
Missouri	4.8	4.4	0.4
Montana	2.5	2.5	0.1
Nebraska	9.6	8.7	0.9
Nevada	1.3	1.3	0.0
New Hampshire	5.9	5.7	0.1
New Jersey	7.3	5.3	2.1
New Mexico	10.5	9.7	0.8
New York	8.0	6.6	1.4
North Carolina	3.3	3.0	0.3
North Dakota	1.9	1.9	0.0
Ohio	7.6	5.3	2.3
Oklahoma	3.8	3.3	0.5

TABLE 8.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING PROCEDURAL ERRORS, FISCAL YEAR 1982—Continued

State	Official error rate	Rate excluding procedural errors [1]	Difference [2]
Oregon	6.4	5.9	0.4
Pennsylvania	8.5	7.1	1.5
Puerto Rico	8.9	8.3	0.6
Rhode Island	5.7	4.7	1.0
South Carolina	8.9	7.3	1.6
South Dakota	3.7	3.5	0.2
Tennessee	4.9	3.9	1.0
Texas	8.4	7.6	0.8
Utah	5.0	4.5	0.5
Vermont	4.5	4.4	0.1
Virgin Islands	4.6	3.7	0.8
Virginia	4.1	3.9	0.2
Washington	6.4	6.0	0.4
West Virginia	8.2	6.8	1.4
Wisconsin	6.5	4.6	1.9
Wyoming	4.8	4.5	0.2

[1] Procedural errors include SSN, WIN, and assignment and cooperation of child support rights.
[2] May not add because rounding.

Source: Department of Health and Human Services, Family Support Administration, Office of Family Assistance.

TABLE 9.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, FISCAL YEAR 1986 [1]

State	Total number of error cases	Percent of total error cases attributed to—	
		Agency	Client
U.S. total [2]	7,821	57.4	42.6
Alabama	122	41.8	58.2
Alaska	36	33.3	66.7
Arizona	186	57.5	42.5
Arkansas	88	60.2	39.8
California	233	62.7	37.3
Colorado	53	52.8	47.2
Connecticut	144	47.9	52.1
Delaware	43	67.4	32.6
District of Columbia	159	53.5	46.5
Florida	470	50.2	49.8
Georgia	224	57.6	42.4

TABLE 9.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, FISCAL YEAR 1986 [1]—Continued

State	Total number of error cases	Percent of total error cases attributed to—	
		Agency	Client
Guam	69	66.7	33.3
Hawaii	61	67.2	32.8
Idaho	37	56.8	43.2
Illinois	358	52.5	47.5
Indiana	390	55.6	44.4
Iowa	180	57.2	42.8
Kansas	85	58.8	41.2
Kentucky	125	56.8	43.2
Louisiana	113	49.6	50.4
Maine	72	63.9	36.1
Maryland	384	45.8	54.2
Massachusetts	90	54.4	45.6
Michigan	492	62.8	37.2
Minnesota	183	65.6	34.4
Mississippi	68	52.9	47.1
Missouri	197	58.9	41.1
Montana	36	63.9	36.1
Nebraska	64	68.8	31.3
Nevada	17	35.3	64.7
New Hampshire	56	64.3	35.7
New Jersey	299	39.1	60.9
New Mexico	80	50.0	50.0
New York	286	73.8	26.2
North Carolina	89	51.7	48.3
North Dakota	25	80.0	20.0
Ohio	166	60.8	39.2
Oklahoma	139	63.3	36.7
Oregon	105	55.2	44.8
Pennsylvania	81	54.3	45.7
Puerto Rico	280	60.7	39.3
Rhode Island	58	50.0	50.0
South Carolina	164	66.5	33.5
South Dakota	17	35.3	64.7
Tennessee	182	47.3	52.7
Texas	133	37.6	62.4
Utah	50	58.0	42.0
Vermont	53	66.0	34.0
Virgin Islands	28	25.0	75.0

TABLE 9.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, FISCAL YEAR 1986 [1]—Continued

State	Total number of error cases	Percent of total error cases attributed to—	
		Agency	Client
Virginia	110	60.0	40.0
Washington	278	56.1	43.9
West Virginia	117	47.9	52.1
Wisconsin	215	54.4	45.6
Wyoming	31	74.2	25.8

[1] Includes ineligible and eligible cases receiving incorrect payments.

[2] Percentages weighted by the proportion of each State's average caseload to the National average.

Source: Office of Family Assistance, Family Support Administration, December 1988.

TABLE 10.—DISPOSITION OF APPLICATIONS FOR AID TO FAMILIES WITH DEPENDENT CHILDREN, FISCAL YEARS 1974–86

Fiscal year	Total [1] dispositions (thousands)	Approved (percent)	Denied (percent)	Other [2] disposition (percent)
1974	2,129	68.2	19.5	12.3
1975	2,537	67	20.6	12.4
1976	2,513	66.2	20.6	13.2
1977	2,589	66.4	20	13.7
1978	2,577	66.1	20.2	13.7
1979	2,622	66.4	20.5	13.1
1980	2,923	65.2	22.8	12
1981	3,006	65.6	23.2	11.2
1982	3,045	64.2	25.4	10.4
1983	3,181	64.1	25.6	10.4
1984	3,106	65.5	24.7	9.8
1985	3,217	64.4	25.5	10.1
1986	3,347	63	26.9	10.1

[1] Does not includes data for Guam in some years before 1980, or 1980–84 data for Alaska.

[2] Most of the "other" dispositions represent withdrawn applications, and some were from applicants who moved or could not be located. For a small number the reason for disposition was not specified.

Source: Fiscal year 1974–76, Quarterly A–12 reports of the National Center for Social Statistics, U.S. Department of Health, Education and Welfare. Fiscal year 1977–86, Table G, p. 91, Quarterly Public Assistance Statistics, fiscal year 1986, Family Support Administration, U.S. Department of Health and Human Services.

TABLE 11.—SUMMARY OF AFDC APPLICATIONS, BY STATE, JULY 1–SEPTEMBER 30, 1986

	Total	Accepted	Denied	Denied, by reason			Otherwise
				Failure to comply with procedural requirements	Income or resources exceed standards	Other	
Total	872,272	62.6	27.1	16.8	6.5	3.8	10.4
Alabama	8,024	63.3	30.0	16.4	9.3	4.2	6.7
Alaska	1,942	47.1	50.7	4.3	35.6	10.8	2.2
Arizona	18,693	41.4	48.5	31.3	6.9	10.4	10.1
Arkansas	8,806	46.8	39.4	23.0	11.4	5.0	13.8
California	121,755	55.4	25.7	17.4	4.0	4.3	18.9
Colorado	8,869	48.4	40.6	29.3	7.9	3.4	11.0
Connecticut	7,457	51.1	41.7	37.5	1.4	2.7	7.2
Delaware	1,653	72.6	22.7	6.2	14.5	2.1	4.7
District of Columbia	3,443	51.8	39.5	7.6	23.0	8.8	8.7
Florida	36,005	51.5	40.0	31.1	7.2	1.6	8.5
Georgia	29,033	50.0	39.7	24.7	9.5	5.5	10.4
Guam	140	61.4	36.4	20.7	15.7	0	2.1
Hawaii	3,509	55.7	20.7	11.8	8.1	.8	23.5
Idaho	4,101	45.9	32.0	14.7	12.0	5.3	22.1
Illinois	38,111	61.7	32.8	23.5	3.2	6.1	5.6
Indiana	10,398	76.2	14.3	5.0	6.7	2.5	9.5
Iowa	12,524	71.8	23.1	12.8	6.4	3.9	5.1
Kansas	7,208	65.7	28.7	21.8	4.1	2.8	5.6
Kentucky	12,319	70.9	25.2	15.4	5.2	4.6	3.9

TABLE 11.—SUMMARY OF AFDC APPLICATIONS, BY STATE, JULY 1–SEPTEMBER 30, 1986—Continued

	Total	Accepted	Denied	Denied, by reason			
				Failure to comply with procedural requirements	Income or resources exceed standards	Other	Otherwise
Louisiana	26,355	47.6	35.8	14.2	14.5	7.1	16.6
Maine	3,978	71.6	25.0	10.9	8.8	5.3	3.4
Maryland	13,325	66.4	24.0	14.5	5.3	4.1	9.6
Massachusetts	14,432	76.3	18.9	13.4	2.3	3.2	4.8
Michigan	48,526	63.1	31.0	17.5	8.2	5.3	5.9
Minnesota	13,318	88.2	8.0	4.3	2.8	.9	3.8
Mississippi	8,766	70.8	21.3	13.0	7.4	1.0	7.9
Missouri	19,120	63.2	22.5	7.4	13.8	1.3	14.3
Montana	2,493	96.4	2.4	1.3	.8	.3	1.2
Nebraska	1,576	48.0	34.3	16.7	11.8	5.8	17.6
Nevada	2,690	53.0	40.2	21.8	15.7	2.7	6.8
New Hampshire	5,231	80.1	13.4	9.4	3.1	.9	6.5
New Jersey	17,516	81.5	14.4	5.8	7.1	1.5	4.1
New Mexico	5,755	45.4	44.2	15.3	9.8	19.1	10.4
New York	65,127	81.1	5.7	4.4	1.2	.1	13.3
North Carolina	15,992	74.3	7.9	1.3	3.1	3.5	17.7
North Dakota	1,195	77.7	19.4	7.6	8.0	3.8	2.9
Ohio	33,228	67.0	22.9	9.6	9.4	4.0	10.1
Oklahoma	10,880	60.2	24.0	8.2	9.0	6.8	15.8

Oregon	7,364	75.1	17.5	9.4	4.6	3.4	7.5
Pennsylvania	32,496	74.3	11.1	5.5	5.1	.5	14.7
Puerto Rico	6,830	65.9	28.2	17.0	6.4	4.7	6.0
Rhode Island	1,968	81.4	11.8	6.1	4.9	.8	6.8
South Carolina	6,752	49.9	40.9	32.5	5.2	3.2	9.2
South Dakota	2,298	98.7	.9	.4	.3	.2	.4
Tennessee	14,691	63.5	25.9	12.3	9.4	4.2	10.6
Texas	73,099	41.9	53.0	41.8	8.1	3.1	5.2
Utah	12,540	89.6	7.7	4.7	1.4	1.6	2.7
Vermont	2,051	53.4	32.8	14.8	9.0	9.0	13.7
Virgin Islands	151	87.4	7.9	1.3	.7	6.0	4.6
Virginia	12,328	62.4	28.8	17.6	6.4	4.8	8.8
Washington	17,996	59.9	24.3	14.9	5.3	4.0	15.8
West Virginia	12,388	69.7	22.8	13.8	7.4	1.6	7.5
Wisconsin	24,026	84.9	14.6	0	7.4	7.2	.6
Wyoming	1,801	64.4	35.6	16.9	14.4	4.2	0

Source: U.S. Department of Health and Human Services.

APPENDIX L. DESCRIPTION OF OTHER MAJOR FEDERAL ASSISTANCE PROGRAMS NOT WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Several Federal programs outside of the jurisdiction of the Committee on Ways and Means provide benefits to some share of those people who also benefit from assistance programs that are within the jurisdiction of the committee. This appendix describes several such programs: food stamps; Medicaid; housing assistance; school lunch and breakfast programs; the supplemental food program for Women, Infants, and Children (WIC); assistance provided under the Job Training Partnership Act; Head Start; Low-Income Home Energy Assistance Program (LIHEAP); and Veterans' Benefits and Services Programs.

Most families receiving AFDC would have incomes low enough to qualify them—or particular members of those families—for assistance under these programs. Unlike the principal assistance programs under the jurisdiction of the Committee on Ways and Means, and Medicaid and food stamps, participation in these programs is limited either by appropriations, or, in the case of the school feeding programs, by the willingness of schools to participate. Income received from AFDC is counted in determining eligibility for these programs—as well as benefit levels, in some cases. However, because these programs provide in-kind rather than cash assistance, benefits received under these programs are not counted in determining eligibility for AFDC.

Tables 1 and 2 describe the overlap in recipients between programs within the jurisdiction of the Committee on Ways and Means and other major Federal assistance programs. Table 1 illustrates that 81.7 percent of AFDC recipient households received food stamps some time during the second quarter of 1987; 18.6 percent received WIC; 95.5 percent received Medicaid, 55.6 percent received free or reduced-price school meals; and 19.4 percent received housing assistance of some form.

Table 2 illustrates the reverse. For example, 48.8 percent of food stamp households received AFDC benefits at some time during the second quarter of 1987; 22.5 percent of food stamp households received SSI; and 2.6 percent of food stamp households received unemployment compensation benefits.

TABLE 1.—PERCENT OF RECIPIENTS IN PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS RECEIVING ASSISTANCE FROM OTHER MAJOR FEDERAL ASSISTANCE PROGRAMS

[Households, second quarter of 1987]

	AFDC	SSI	Social Security	Unemployment compensation	Medicare
Number of households receiving benefits (in thousands)	3,527	3,341	25,038	1,862	22,107
Percent receiving:					
Food stamps	81.7	39.7	6.3	8.4	6.0
WIC	18.6	2.5	.5	3.3	.3
Free or reduced-price school meals	55.6	11.9	3.4	9.3	1.7
Public or subsidized rental housing	19.4	20.0	6.7	1.8	7.4
Medicaid	95.5	99.6	12.3	7.9	12.8
VA compensation or pensions	1.9	7.7	7.7	5.4	7.2

Note: Table reads that 81.7 percent of AFDC households, also receive food stamps.

Source: U.S. Bureau of the Census, Survey of Income and Program Participation.

TABLE 2.—PERCENT OF RECIPIENTS IN OTHER MAJOR FEDERAL ASSISTANCE PROGRAMS RECEIVING ASSISTANCE UNDER PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[Households, second quarter of 1987]

	Food stamps	WIC	Free or reduced school meals	Public or subsidized rental housing	Medicaid	VA compensation or pensions
Number of households receiving benefits (in thousands)	5,904	1,506	6,208	3,610	7,918	3,438
Percent receiving:						
AFDC	48.8	43.6	31.6	19.0	42.5	1.9
SSI	22.5	5.6	6.4	18.5	42.0	7.5
Social Security	26.6	8.8	13.7	46.4	38.9	56.1
Unemployment compensation	2.6	4.1	2.8	0.9	1.9	2.9
Medicare	22.4	5.1	6.1	45.3	35.9	46.6

Note: Table reads that 48.8 percent of food stamp recipient households receive AFDC.

Source: U.S. Bureau of the Census, Survey of Income and Program Participation.

FOOD STAMP PROGRAM

Food stamps are designed primarily to increase the food purchasing power of eligible low-income households to a point where they can buy a nutritionally adequate low-cost diet. Participating households are expected to be able to devote 30 percent of their counted monthly cash income to food purchases.[1] Food stamp benefits then make up the difference between the household's expected contribution to its food costs and an amount judged to be sufficient to buy an adequate low-cost diet. This amount, the maximum food stamp benefit level, is derived from the U.S. Department of Agriculture's lowest-cost food plan (the Thrifty Food Plan), varied by household size, and adjusted annually for inflation. Thus, a participating household with no counted cash income receives the maximum monthly allotment for its household size, intended to enable it to purchase an adequate low-cost diet with its food stamps alone, while one with some counted income receives a lesser allotment, reduced from the maximum at the rate of 30 cents for each dollar of counted income and intended to enable it to purchase an adequate low-cost diet with a combination of food stamps and its own cash.

Benefits are available to nearly all households that meet Federal eligibility tests for limited monthly income and liquid assets, as long as certain household members fulfill work registration and employment and training program requirements. In addition, recipients in the two primary Federal/State cash welfare progams, the AFDC and SSI programs, generally are automatically eligible for food stamps; households composed entirely of ADFC or SSI recipients are categorically eligible for food stamp aid, without regard to food stamp income and assets standards.[2]

ADMINISTRATION, PROGRAM VARIATIONS, AND FUNDING

The regular Food Stamp program operates in all 50 States, the District of Columbia, Guam, and the Virgin Islands. The Federal Government is responsible for virtually all of the rules that govern the program and, with limited variations for Alaska, Hawaii, and the territories, these rules are nationally uniform. States, the District of Columbia, and the territories may choose to offer the program or not. However, if they do offer food stamp assistance, it must be made available throughout the jurisdiction and comply with Federal rules. Sales taxes on food stamp purchases may not be charged.

Alternative programs are offered in Puerto Rico and the Northern Mariana Islands, and program variations occur in a number of demonstration projects and in those jurisdictions that have elected to exercise the limited number of program options allowed.

Funding is overwhelmingly Federal, although the States and other jurisdictions have financial responsibility for significant administrative costs, as well as liability for erroneous benefit determinations (as assessed under the food stamp "quality control" system).

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[1] Because not all of a household's income is actually counted when determining its food stamp benefits, the program, in effect, assumes that most participants are able to spend about 20–25 percent of their total cash monthly income on food.

[2] Except for SSI recipients in California and Wisconsin, where a State-financed adjustment to SSI benefits has replaced food stamp assistance.

Federal administrative responsibilities

At the Federal level, the program is administered by the Agriculture Department's Food and Nutrition Service (FNS). The FNS gives direction to welfare agencies through Federal regulations that define eligibility requirements, benefit levels, and administrative rules. It is also responsible for (1) printing food stamp coupons and distributing them to welfare agencies and (2) approving, and overseeing participation by, retail food stores and other outlets that may accept food stamps. Other Federal agencies that have administrative roles to play include: the Federal Reserve System (through which food stamps are redeemed for cash), the Social Security Administration (responsible for the social security numbers recipients must have, provision of limited application "intake" services, and providing information to verify recipients' income), the Internal Revenue Service (providing assistance in verifying recipients' income and assets), and the Immigration and Naturalization Service (helping welfare offices confirm alien applicants' citizenship status).

State and local administrative responsibilities

States, the District of Columbia, Guam, and the Virgin Islands, through their local welfare offices, have primary responsibility for the day-to-day administration of the Food Stamp program. They determine eligibility, calculate benefits, and issue food stamp allotments following Federal rules. They also have a significant say about carrying out employment and training programs and some administrative features of the program (e.g., the extent to which verification of household circumstances is pursued, the method by which food stamps are issued). Most often, the Food Stamp program is operated through the same welfare agency and staff that runs the Federal/State AFDC and Medicaid programs.

Puerto Rico and the Northern Mariana Islands

In addition to the regular Food Stamp program, the Food Stamp Act authorizes and provides funds for a nutrition assistance program in the Commonwealth of Puerto Rico. Separate legislation authorizes a variant of the Food Stamp program in the Commonwealth of the Northern Mariana Islands.

Since July 1982, Puerto Rico has operated a nutrition assistance program of its own design, funded by an annual Federal "block grant." [3] The Commonwealth's nutrition assistance program differs from the regular Food Stamp program in that: (1) funding is limited to an annual amount specified by law; [4] (2) the Food Stamp Act allows the Commonwealth a great deal of flexibility in program design, as opposed to the regular program's extensive Federal rules; (3) benefits are paid in cash (checks) rather than food stamp coupons; (4) income and liquid assets eligibility limits are about half those used in the regular Food Stamp program; (5) maximum benefit levels are one-third less than in the 48 States and the District of Columbia; and (6) different rules are used in counting income for eligibility and benefit purposes. In fiscal year 1988, Puerto Rico's nutrition assistance program aided approximately 1.4 million persons each month with benefits averaging just under $49 a person.

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[3] Prior to July 1982, the regular Food Stamp program operated in Puerto Rico, although with slightly different eligibility and benefit rules.

[4] For fiscal year 1989, $908 million is earmarked. The block grant funds the full cost of benefits, plus half the cost of administration.

Under the terms of the 1976 Covenant with the Commonwealth of the Northern Mariana Islands and implementing legislation (P.L. 96-597), a variant of the Food Stamp program was negotiated with the Commonwealth and began operations in July 1982. The program in the Northern Marianas differs primarily in that: (1) it is funded entirely by Federal money, up to a maximum grant of $3.7 million a year; (2) a portion of each household's food stamp benefit must be used to purchase locally produced food; (3) maximum allotments are about 20 percent higher than in the 48 States and the District of Columbia; and (4) income eligibility limits are about half those in the regular program. In fiscal year 1988, the Northern Marianas' program assisted some 4,000 people each month with benefits averaging $67 a person.

Program options

The Food Stamp Act authorizes demonstration projects to test program variations that might improve operations.[5] In addition, States are allowed to implement a few optional aspects of the Food Stamp program. States may require "monthly reporting and retrospective budgeting" (MRRB) for parts of their food stamp caseload. They may disregard the first $50 a month in child support payments, if they pay the benefit cost of doing so. States or localities may choose to run "workfare" programs, and State welfare agencies exercise primary responsibility in the design of food stamp employment and training programs. And States can operate "outreach" programs, with Federal cost-sharing, to inform low-income persons about food stamps.

Funding

The Food Stamp Act provides 100 percent Federal funding of food stamp benefits. The Federal Government is also responsible for its own administrative costs: overseeing program operations (including oversight of participating food establishments), printing and distributing food stamp coupons to welfare agencies, redeeming food stamp coupons through the Federal Reserve, and payments to the Social Security Administration for certain intake services.

Welfare agency administrative costs are shared by the Federal Government to varying degrees. Basic day-to-day administrative costs are shared equally with the States.[6] The cost of optional outreach activities is also eligible for a 50 percent Federal match. Costs associated with the development of computer capability and fraud control activities are eligible for a 75 percent Federal share, and welfare agencies are allowed to retain a portion of overissued benefits they collect. Costs for implementing the Systematic Alien Verification for Entitlements (SAVE) program are fully reimbursed by the Federal Government. And the cost of carrying out food stamp employment and training programs is shared by the Federal Government in two ways: (1) each State or other jurisdiction receives a Federal grant for basic operating costs (a formula share of $75 million in fiscal year 1989); (2) additional employment and training program operating costs, as well as expenses for support services to participants (e.g., transportation and child care), are eligible for a 50-percent Federal matching share.[7]

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[5] At present, three types of demonstration projects are underway: (1) a "cashout" project for the elderly and SSI recipients, (2) payment of food stamp benefits as part of AFDC cash benefits in Washington State's Family Independence Program (FIP), and (3) an "electronic benefit transfer" project.

[6] This 50-percent Federal share can be increased to 60 percent where the State has a very low rate of erroneous benefit determinations.

TABLE 3.—RECENT FOOD STAMP EXPENDITURES

[In millions of dollars]

Fiscal year	Benefits [2] (Federal)	Administration [1]		
		Federal	State and local	Total
1979	6,480	515	388	7,383
1980	8,685	503	375	9,563
1981	10,630	678	504	11,812
1982	10,408	709	557	11,674
1983	11,955	778	612	13,345
1984	11,499	971	805	13,275
1985	11,556	1,043	871	13,470
1986	11,415	1,113	935	13,463
1987	11,344	1,195	996	13,535
1988 (estimated) [3]	11,999	1,290	1,080	14,369

[1] All Federal administrative costs associated with the Food Stamp program and Puerto Rico's block grant are included: Federal matching for the various administrative costs of States and other jurisdictions (including Puerto Rico) and direct Federal administrative costs, whether paid for out of the food stamp appropriation or separate Agriculture Department accounts (in a few instances, these separate costs are estimated).

State and local costs are estimated based on the known Federal shares and represent an estimate of all administrative expenses of participating States and other jurisdictions (including Puerto Rico).

[2] All benefit costs associated with the Food Stamp program and Puerto Rico's block grant are included. The benefit amounts shown in the table reflect small downward adjustments for overpayments collected from recipients. Over time, the figures reflect both changes in benefit levels and numbers of recipients.

[3] Estimated as of December 1988, based on revised preliminary spending reports.

Source: Budget documents prepared by the FNS. Compiled by the Congressional Research Service.

ELIGIBILITY

The Food Stamp program has financial, employment/training-related, and "categorical" tests for eligibility. Its financial tests require that most of those eligible have monthly income and liquid assets below limits set by food stamp law. Under the employment/training-related tests, certain household members must register for work, accept suitable job offers, and fulfill work or training requirements (such as looking or training for a job) established by State welfare agencies. The limited number of categorical eligibility rules make some automatically eligible for food stamps (most AFDC and SSI recipients), and categorically deny eligibility to others (e.g., strikers, illegal and temporarily resident aliens, those living in institutional settings). Applications cannot be denied because of the length of a household's residence in a welfare agency's jurisdiction or because it has no fixed mailing address or does not reside in a permanent dwelling.

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[7] The Federal 50-percent share for support services is limited. At present, participant expenses up to $25 per participant per month are covered. Beginning in July 1989, coverage will extend to (1) dependent care costs up to $160 per dependent per month and (2) other expenses (e.g., transportation) up to $25 per participant per month.

The food stamp household

Generally speaking, individuals living together and purchasing food and preparing meals in common constitute the basic food stamp beneficiary unit: the food stamp "household." Individuals who are members of the same food stamp household must apply together, and the income, expenses, and assets of all members are aggregated in determining the household's eligibility and monthly benefit allotment. Most often, persons living together receive larger aggregate benefits if they are treated as more than one food stamp household.

Individuals and family units who live together may, in some cases, apply as *separate* food stamp households, have only their income, expenses, and assets taken in account, and receive a benefit in their own right. Related and unrelated persons are treated differently in this respect, as are the elderly and disabled and those living in certain group living arrangements:

—Unrelated persons who purchase food and prepare meals separate from their co-residents may apply separately.

—Relatives (i.e., parents, children, brothers, and sisters) generally must apply together, regardless of the above-noted "purchase and prepare" rule. Children under the parental care of an adult usually must apply together with their parent(s) or caretaker(s). *But* parents with their minor children, as well as elderly or disabled individuals (and their spouses), are exempt from this requirement and may, as with unrelated persons, apply separately if they purchase food and prepare meals separate from their co-residents.[8]

—Elderly persons living with relatives (e.g., their adult children) who *cannot* purchase food and prepare meals separately because of a substantial disability may apply separately, as long as those they live with have a monthly income below prescribed limits.

—Individuals living in approved treatment programs for drug addicts or alcoholics, certain small group homes for the disabled, shelters for battered women and children, and shelters for the homeless are treated as separate households for food stamp purposes, without regard to the purchase and prepare rule.

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[8] In the Food Stamp program, "elderly" persons are those age 60 or older. The "disabled" generally are beneficiaries of governmental disability-based assistance (e.g., social security or SSI disability recipients, disabled veterans, certain disability retirement annuitants, recipients of disability-based Medicaid or general assistance).

—Persons with foster children in their care may choose to apply separately from the foster child.

As a result, different food stamp households can live together, food stamp recipients can reside with nonrecipients, and food stamp households themselves may be "mixed," including recipients and nonrecipients of other welfare benefits (the food stamp household unit is unrelated to other aid programs' basic recipient units, such as families with children in the AFDC program, and single persons and couples in the SSI program).

Income eligibility.

Except for households composed entirely of AFDC or SSI recipients (who generally are automatically eligible for food stamps), *monthly cash income* is the primary food stamp eligibility determinant.[9]

In establishing eligibility for households *without an elderly or disabled member,* the Food Stamp program uses both the household's *basic* (or "gross") monthly income and its *counted* (or "net") monthly income.

When judging eligibility for households *with elderly or disabled members,* only the household's *counted* monthly income is considered; in effect, this applies a more liberal income test to elderly and disabled households.

Basic (or gross) monthly income includes all of a household's *cash* income, only excepting the following "exclusions" (disregards): (1) payments made to third parties (rather than directly to the household;[10] (2) unanticipated, irregular, or infrequent income, up to $30 a quarter; (3) loans (deferred repayment student loans are treated as student aid, see below); (4) income received for the care of someone outside the household; (5) nonrecurring lump-sum payments such as income tax refunds and retroactive lump-sum social security payments (these are instead counted as liquid assets); (6) energy assistance; (7) expense reimbursements that are not a "gain or benefit" to the household; (8) income earned by schoolchildren; (9) the cost of producing self-employment income; (10) Federal postsecondary student aid (e.g., Pell grants, student loans) to the extent that it is used for tuition, mandatory school fees or expenses, loan origination fees, and miscellaneous education-related expenses; (11) non-Federal postsecondary student aid (e.g., State or private scholarships) and Federal aid under provisions other than title IV of the Higher Education Act to the extent that it is used for tuition, mandatory school fees or expenses, and loan origination fees; (12) advance payments of earned income tax credits;[11] (13) "on-the-job" training earnings of dependent children under 19 in Job Training Partnership Act (JTPA) programs, as well as JPTA monthly "allowances;" and (14) payments required to be disregarded by provisions of Federal law outside the Food Stamp Act (e.g., various payments under laws relating to Indians).

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[9] Although they do not have to meet food stamp income and assets tests, AFDC and SSI households must still have their income calculated under food stamp rules to determine their food stamp *benefits.*

[10] Some third-party ("vendor") payments for normal living expenses are *not* disregarded.

[11] To the extent earned income tax credits are paid as lump-sum income tax refunds, they are counted as liquid assets.

Counted (or net) monthly income is computed by subtracting certain "deductions" from a household's basic (or gross) monthly income. It recognizes that not all of a household's income is equally available for food purchases by disregarding a standard portion of income, plus amounts representing work expenses or excessively high non-food living expenses.

For households *without an elderly or disabled member,* counted monthly income equals their basic (gross) monthly income less the following deductions:

- —an inflation-indexed (each October) "standard deduction" set at $106 a month in fiscal year 1989, regardless of household size;[12]
- —20 percent of any earned income, in recognition of taxes and work expenses;
- —out-of-pocket dependent care expenses, when related to work or training, up to $160 a month for each dependent; and
- —any shelter expenses, to the extent they *exceed* 50 percent of counted income after all other deductions, up to an inflation-indexed (each October) ceiling set at $170 a month in fiscal year 1989.[13]

For households *with an elderly or disabled member,* counted monthly income equals their basic (gross) monthly income less the following deductions:

- —the same standard, earned income, and dependent care deductions noted above;
- —any shelter expenses, to the extent they exceed 50 percent of counted income after all other deductions, *with no limit;* and
- —any out-of-pocket medical expenses (other than those for special diets) that are incurred by an elderly or disabled household member, to the extent they exceed a "threshold" of $35 a month.

TABLE 4.—FOOD STAMP DEDUCTION LEVELS

[Effective October 1988 through September 1989)

	48 States and D.C.	Alaska	Hawaii	Guam	Virgin Islands
Monthly standard deduction [1]	$106	$182	$150	$213	$94
Monthly ceiling on shelter expense deductions [2]	170	296	243	206	125
Monthly ceiling on dependent care deductions [3]	160	160	160	160	160
Monthly threshold for medical expense deductions [4]	35	35	35	35	35

[1] Indexed annually (and rounded down to the nearest whole dollar), each October, to reflect changes (through the immediately previous June) in the Consumer Price Index for All Urban Consumers (CPI–U), for items other than food. Not varied by household size or type.

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[12] Different standard deductions prevail for Alaska, Hawaii, and the territories.

[13] Different ceilings prevail in Alaska, Hawaii, and the territories.

[2] Indexed annually (and rounded down to the nearest whole dollar), each October, to reflect changes (through the immediately previous June) in the shelter, fuel, and utilities components of the CPI–U. Not applied to households with elderly or disabled members.

[3] Not indexed. Maximum deduction per dependent.

[4] Not indexed. Medical expense deductions available only to the elderly and disabled.

Except for those households comprised entirely of AFDC or SSI recipients, in which case food stamp eligibility generally is automatic, all households must have counted (net) monthly income that does not exceed the Federal poverty guidelines, as adjusted for inflation each October. Households without an elderly or disabled member also must have basic (gross) monthly income that does not exceed 130 percent of the inflation-adjusted Federal poverty guidelines. Both these income eligibility limits are uniform for the 48 contiguous States, the District of Columbia, Guam, and the Virgin Islands; somewhat higher limits (based on higher poverty guidelines) are applied in Alaska and Hawaii.

TABLE 5.—COUNTED (NET) AND BASIC (GROSS) MONTHLY INCOME ELIGIBILITY LIMITS

[Effective October 1988 through September 1989]

Household size	48 States, D.C., and the territories	Alaska	Hawaii
NET MONTHLY INCOME ELIGIBILITY LIMITS [1]			
1 person	$481	$601	$555
2 persons	645	805	742
3 persons	808	1,010	930
4 persons	971	1,214	1,117
5 persons	1,135	1,418	1,305
6 persons	1,298	1,622	1,492
7 persons	1,461	1,826	1,680
8 persons	1,625	2,030	1,867
Each additional person	+164	+205	+188
BASIC (GROSS) MONTHLY INCOME ELIGIBILITY LIMITS [2]			
1 person	$626	$782	$721
2 persons	838	1,047	965
3 persons	1,050	1,312	1,208
4 persons	1,263	1,578	1,452
5 persons	1,475	1,843	1,696
6 persons	1,687	2,109	1,940
7 persons	1,900	2,374	2,183
8 persons	2,112	2,639	2,427
Each additional person	+213	+266	+244

[1] Set at the applicable Federal poverty guidelines, updated for inflation through calendar 1987.

[2] Set at 130 percent of the applicable Federal poverty guidelines, updated for inflation through calendar 1987.

Allowable assets

Except for those households who are automatically eligible for food stamps because they are composed entirely of AFDC or SSI recipients, eligible households must have *counted "liquid" assets* that do not exceed federally prescribed limits. Households without an elderly or disabled member cannot have counted liquid assets above $2,000. Households with an elderly or disabled member cannot have counted liquid assets above $3,000.

Counted liquid assets include cash on hand, checking and savings accounts, savings certificates, stocks and bonds, individual retirement accounts (IRAs) and "Keogh" plans (less any early withdrawal penalties), and non-recurring lump-sum payments such as income tax refunds. Certain "less liquid" assets are also counted: a portion of the value of vehicles (generally, the "fair market value" in excess of $4,500) and the equity value of property not producing income consistent with its value (e.g., recreational property).

Counted assets *do not include* the value of the household's residence (home and surrounding property), business assets, personal property (household goods and personal effects), burial plots, the cash value of life insurance policies and pension plans (other than Keogh plans and IRAs), and certain other resources whose value is not accessible to the household or are required to be disregarded by other Federal laws.

Work registration and employment and training program requirements

Unless exempt, adult applicants for food stamps must register for work, typically with the welfare agency or a State employment service office. To maintain eligibility, they must accept a suitable job if offered one and fulfill any work, "job search," or training requirements established by administering welfare agencies. If the household head fails to fulfill any of these requirements, the entire household is disqualified, typically for 2 months; in other cases, failure to comply disqualifies the non-complying household member only.

Those who are *exempt by law* from work registration, having to accept a suitable job offer, and employment and training program requirements (work, job search, training) include: persons physically or mentally unfit for work, those under age 16 or age 60 or older, and individuals between 16 and 18 (if they are not head of household or are attending school or a training program); persons working at least 30 hours a week or earning the minimum wage equivalent; persons caring for dependents who are disabled or under age 6, and those caring for children between ages 6 and 12 if adequate child care is not available (this second exemption is limited to allowing these persons to refuse a job offer if care is not available); individuals already subject to and complying with another assistance program's work, training, or job search requirements (i.e., those in AFDC work, training, or job search programs or fulfilling unemployment compensation job search requirements); otherwise eligible postsecondary students; and residents of drug addiction and alcoholic treatment programs.

Those not exempted by one of the above-listed rules must, at least, register for work and accept suitable job offers. However, the main thrust of the food stamp employment and training program is to ensure that non-exempt recipients ("mandatory" work registrants) also fulfill some type of work, job search, or training obligation. To carry this out, welfare agencies are required to operate an employment and training program of their own design for work registrants whom they designate. Welfare agencies may require all work registrants to participate in one or more components of their program, or limit participation (with the Agriculture Department's approval) by *further exempting* additional categories and individuals for whom participation is judged "impracticable" or not "cost-effective." But they must allow otherwise exempt recipients to participate as volunteers and may set up special programs for them.

Once the "pool" of work registrants who will be required to participate in an employment or training program is identified, welfare agencies must place at least 35 percent of them in one or more program components; this minimum placement requirement rises to 50 percent in fiscal year 1990. Program components can include any or all of the following activities, at the welfare agency's option: supervised job search or training for job search, workfare, work experience or training programs, education programs to improve basic skills, or any other employment or training activity approved by the Agriculture Department.

Recipients who take part in an employment or training activity beyond work registration cannot be required to *work* more than the minimum wage equivalent of their household's benefit, and *total hours of participation* (including both work and any other required activity) cannot exceed 120 hours a month. Welfare agencies also must provide participants support for costs directly related to participation (e.g., transportation and child care). At present, agencies may limit this support to $25 per participant per month. Beginning in July 1989, the $25 limit will apply to all support costs other than dependent care, and support for dependent care costs, up to a separate limit of $160 per dependent per month, will be required.

Under current rules, State employment and training program performance is judged by the percentage of non-exempt work registrants placed in a program component.[14] However, recent amendments require the development of new standards whereby State performance will be measured against employment-related "outcomes" such as job placement and retention rates, reduced need for food stamp benefits, and improvement in educational levels. These standards are expected to be in place by early 1991.

Categorical eligibility rules and other limitations

A few food stamp rules deny food stamp eligibility for reasons other than financial need (limited income or liquid assets) or compliance with work registration or employment and training program requirements: (1) Where the head of household has voluntarily quit a job without good cause, the household's eligibility is barred for 90 days; (2) Households containing members on strike are ineligible, unless eligible prior to the strike; (3) Postsecondary students (in school half-time or more) who are physically and mentally fit for work and between ages 18 and 60 are ineligible unless they are assigned to school by a JTPA program or as part of an AFDC employment and training program, are employed at least 20 hours a week or participating in a federally financed work-study program, or are a parent with responsibility for the care of a dependent child under age 6 or an AFDC recipient; (4) Eligibility is barred to illegal or temporarily resident aliens;[15] (5) Eligibility is denied persons living in institutional settings, except for those in special SSI-approved small group homes for the disabled, persons living in drug addiction or alcoholic treatment programs, and persons in shelters for battered women and children or shelters for the homeless; (6) Boarders are ineligible unless they apply together with the household they are boarding with; (7) Eligibility is denied those who transfer assets for the purpose of qualifying for food stamps; (8) Those who intentionally violate food stamp rules are disqualified for specific time periods ranging from 6 months (on first violation) to permanently (on a third violation); (9) Those failing to provide social security numbers, or to cooperate in providing information needed to verify eligibility or benefit determinations, are ineligible.

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[14] They must meet a minimum percentage requirement (35 percent, rising to 50 percent); those sanctioned for non-compliance and volunteers are included as "placements" in this count.

BENEFITS

Food stamp benefits are a function of a household's size, its *counted (net)* monthly income, and maximum monthly benefit levels (in some cases, adjusted for geographic location). An eligible household's counted income is determined (as for eligibility), its maximum benefit level is established (depending on its size and location), and a benefit is calculated by subtracting its expected contribution (30 percent of its counted income) from its maximum allotment; maximum allotments are available only to those with no counted monthly income. In fiscal year 1988, monthly benefits averaged $50 a person and $130 a household; in fiscal year 1989, average benefits are expected to be slightly higher, about $52 a person.

Maximum monthly allotments

Maximum monthly food stamp allotments are tied to the cost of purchasing a nutritionally adequate low-cost diet, as measured by the Agriculture Department's Thrifty Food Plan (TFP).[16] Maximum allotments are set at: the monthly cost of the TFP for a 4-person family consisting of a couple between ages 20 and 50 and 2 school-age children, adjusted for family size (using a formula reflecting economies of scale developed by the HNIS), increased by certain percentages established in law,[17] and rounded down to the nearest whole dollar. They are adjusted for food price inflation annually, each October, to reflect the cost of the TFP in the immediately previous June. Thus, maximum allotments for fiscal year 1989 represent the cost of the TFP in June 1988, adjusted for household size, increased by .65 percent, and rounded down.

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[15] In addition, a legal alien's sponsor's income and assets may deny the alien eligibility.

[16] The TFP is the cheapest of four food plans designed by the Agriculture Department's Human Nutrition Information Service and is priced monthly (using data from price surveys done for the CPI-U).

[17] In fiscal year 1989, the add-on is .65 percent; in fiscal year 1990, it is 2.05 percent; and in later years, the add-on is 3 percent.

Maximum allotments are standard in the 48 contiguous States and the District of Columbia; they are higher, reflecting substantially different food costs, in Alaska, Hawaii, Guam, and the Virgin Islands.

TABLE 6.—MAXIMUM MONTHLY FOOD STAMP ALLOTMENTS

[Effective October 1988 through September 1989]

Household size	48 States and D.C.	Alaska [1]	Hawaii	Guam	Virgin Islands
1 person	$90	$114	$137	$132	$115
2 persons	165	210	251	243	212
3 persons	236	300	359	348	303
4 persons	300	382	457	442	385
5 persons	356	453	542	525	458
6 persons	427	544	651	630	549
7 persons	472	601	719	696	607
8 persons	540	687	822	795	694
Each additional person	+68	+86	+103	+99	+87

[1] Maximum monthly allotments for designated urban areas of Alaska. Three separate higher allotment levels are applied in remote rural areas of Alaska. They are 27, 38, and 55 percent higher than the urban allotments shown here.

Minimum and prorated benefits

Minimum monthly food stamp allotments vary by household size, type of income, and the extent to which deductions from basic (gross) income are claimed (i.e., different counted income calculations). Income eligibility limits can be exceeded before the allotment value is reduced to zero; in these cases, minimum benefits range from $2 to over $50 a month (however, eligible 1- and 2-person households are guaranteed a minimum monthly allotment of $10). In a few instances, the benefit is reduced to zero before income eligibility limits are exceeded, making some households "eligible" for no benefit.

In addition, a household's calculated monthly allotment can be "prorated" (reduced) for one month. On application, a household's first month's benefit is reduced to reflect the date of application. If a previously participating household does not meet eligibility "recertification" requirements in a timely fashion, but does become certified for eligibility subsequently, benefits for the first month of its new certification period normally are prorated to reflect the date when recertification requirements were met.

Application processing and issuing food stamps

Food stamp benefits are normally issued monthly. The local welfare agency must either deny eligibility or make food stamps available within 30 days of initial application and must provide food stamps without interruption if an eligible household reapplies and fulfills recertification requirements in a timely manner. Households in immediate need because of little or no income and very limited cash assets, as well as the homeless and those with extraordinarily high shelter expenses, must be given expedited service (provision of benefits within 5 days of initial application).

Food stamp issuance is a welfare agency responsibility and issuance practices differ among welfare agencies. Most food stamp coupons are issued by: (1) providing (usually mailing) recipients an "authorization-to-participate" (ATP) card that is then turned in at a local issuance point (e.g., a bank or post office) when picking up their monthly allotment, or (2) mailing food stamp coupon allotments directly to recipients.

Using food stamps

Food stamp benefits are issued in the form of booklets of coupons. The smallest coupon denomination is $1; if change of less than $1 is due on a food stamp purchase, it is returned in cash. Typically, participating households use their food stamps in approved grocery stores to buy food items for home preparation and consumption. However, the actual list of approved uses for food stamps is more extensive, and includes: (1) food for home preparation and consumption, not including alcohol, tobacco, or hot foods intended for immediate consumption; (2) seeds and plants for use in gardens to produce food for personal consumption; (3) in the case of the elderly and SSI recipients (and their spouses), meals prepared and served through approved communal dining programs for the elderly and disabled; (4) in the case of the elderly and those who are disabled to an extent that they cannot prepare all of their meals, home-delivered meals provided by programs for the homebound; (5) meals prepared and served to residents of drug addiction and alcoholic treatment programs, small group homes for the disabled, shelters for battered women and children, and shelters or other establishments serving the homeless; and (6) where the household lives in certain remote areas of Alaska, equipment for procuring food by hunting and fishing (e.g., nets, hooks, fishing rods, and knives).

INTERACTION WITH CASH ASSISTANCE PROGRAMS

The Food Stamp program is intertwined with cash assistance in two ways: it is administratively linked to cash welfare aid at the State and local levels, and its recipient population is made up largely of recipients of other government benefits.

At the State and local levels, the Food Stamp program is administered by the same welfare offices and personnel that administer cash assistance such as AFDC and general assistance. And joint food stamp/cash welfare application and interview procedures are the general rule. This coadministration does not apply for most elderly or disabled persons, whose SSI cash assistance is typically administered through Social Security Administration offices, although these offices do provide limited intake services for the Food Stamp program.

For most persons participating in the Food Stamp program, food stamp aid represents a second or third form of government payment. Fewer than 20 percent of food stamp households rely solely on nongovernmental sources for their cash income, although nearly 30 percent have some income from these sources (e.g., earnings, private retirement income). According to quality control data, the AFDC program contributes to the income of about 38 percent of food stamp households, and for two-thirds of them AFDC is their only cash income. SSI benefits go to some 18 percent of food stamp households, and almost one-third have no other income. About 20 percent of food stamp households receive social security or railroad retirement benefits. And over 15 percent are paid general assistance, unemployment insurance, or workers' compensation benefits.

TABLE 7.—CHARACTERISTICS OF FOOD STAMP HOUSEHOLDS: 1976–86

[In percent]

Food stamp recipient households	Year and month survey was conducted									
	1976 (Sept.)	1978 (Feb.)	1979 (Nov.)	1980 (Aug.)	1981 (Aug.)	1982 (Aug.)	1983 (Feb.)	1984 (Aug.)	1985 (Summer)	1986 (Summer)
With gross monthly income:										
Below the Federal poverty levels	82	87	82	87	90	95	93	93	94	93
Between the poverty levels and 125/130 percent of the poverty levels [1]	11	8	14	10	9	5	7	6	6	6
Above 125 percent/130 percent of the poverty levels [1]	7	5	4	2	1	*	*	1	*	*
With earnings	21	19	20	19	20	18	20	19	20	21
With public assistance income [2]	70	73	57	65	69	69	75	71	68	69
With AFDC income	43	43	34	NA	40	42	50	42	39	38
With SSI income	20	22	20	18	19	18	18	18	19	18
With children	57	NA	55	60	56	58	68	61	59	61
And nonelderly female heads of household	44	NA	40	NA	43	45	52	47	46	48
With elderly members [3]	17	17	24	23	21	20	18	22	21	20
With elderly female heads of household [3]	10	10	15	NA	14	14	12	16	16	15
Average household size	3.0	3.0	2.7	2.8	2.7	2.8	2.9	2.8	2.7	2.7

[1] For 1976 and 1978, percentages shown indicate the proportions of households with incomes between the poverty levels and 125 percent of the poverty levels, and the proportions of households with incomes above 125 percent of the poverty levels. For later years, percentages shown indicate the proportions of households with incomes between the poverty levels and 130 percent of the poverty levels, and the proportions of households with incomes above 130 percent of the poverty levels.

[2] Public assistance income includes AFDC, SSI, and general assistance.

[3] For 1976 and 1978, elderly members and heads of household include those age 65 or older. For later years, elderly members and heads of household include those age 60 or older.

Source: U.S. Department of Agriculture (Food and Nutrition Service) surveys of the characteristics of food stamp households.

Compiled by the Congressional Research Service.

FOOD STAMP PARTICIPATION RATES

Table 8 shows gross food stamp participation rates using three different measures for the United States from 1975–88. The actual number of food stamp participants has fluctuated widely over the last 14 years, reaching its highest level of 21.6 million in 1983 and decreasing significantly to 18.7 million in 1988. As a percentage of the total U.S. resident population, food stamp participation rose significantly from a rate of 6.5 participants per 100 persons in 1979 to 9.3 percent in 1983, and has declined to 7.7 percent in 1988. In the poor and pre-transfer poor populations, the food stamp participation rates in 1987 were 58.7 and 55.6 respectively, the lowest levels shown in the table.

Two recent studies for August 1984 provide a more refined analysis of food stamp participation rates and the extent to which the food stamp program is serving its target population. A USDA study entitled "Food Stamp Program Participation Rates" estimates that 66 percent of individuals eligible for food stamps participated, and 60 percent of households eligible for food stamps participated. Those households participating received 80 percent of the benefits payable if all eligible households had participated.

A CBO study entitled "The Food Stamp Program: Eligibility and Participation" reported similar findings. The study estimates that between one-half and two-thirds of the approximately 30.4 million people who were eligible for food stamps in August 1984 participated in the program. In addition, particular subgroups of the eligible population participated at different rates. Among groups defined by monthly income levels, participation rates were highest for those with the lowest levels of income—between 60 percent and 85 percent for people with household income under $400 in August—and they declined as income levels rose.

Similarly, eligible people in households with no assets had relatively high participation rates—between 64 percent and 86 percent—while those with higher assets ($1,000 or more) had very low rates of participation—between 13 percent and 22 percent.

Certain demographic groups were more likely than others to participate. Eligible households with children had higher-than-average participation rates (between 59 percent and 81 percent), which reflects the fact that many poor children are participating in Aid to Families with Dependent Children (AFDC), and most AFDC families also receive food stamps. In contrast, participation rates for households with elderly members were lower, at 34 to 44 percent. Households without children or elderly members had still lower participation rates. These households include nonelderly single individuals and childless couples. Participation rates for this group ranged from 24 to 39 percent.

TABLE 8.—FOOD STAMP PARTICIPATION RATES IN THE UNITED STATES, 1975–88

Year	Number of food stamp participants (in millions)	Food stamp participation rates as percent of—		
		Total population[1]	Poor population[2]	Pre-transfer poor population[3]
1975	16.3	7.6	63.0	NA
1976	17.0	7.9	68.1	NA
1977	15.6	7.2	63.1	NA
1978	14.4	6.5	58.8	NA
1979	15.9	7.1	61.0	57.1
1980	19.2	8.5	65.6	60.7
1981	20.6	9.0	64.7	60.8
1982	20.4	8.9	59.3	56.3
1983	21.6	9.3	61.2	58.5
1984	20.9	8.9	62.0	58.5
1985	19.9	8.4	60.2	56.6
1986	19.4	8.1	59.9	56.2
1987	19.1	7.9	58.7	55.6
1988	18.7	7.7	NA	NA

[1] Data on total U.S. resident population can be found in Appendix J, table 7.
[2] Data on the U.S. poor population can be found in Appendix I, table 2.
[3] Data on the U.S. pre-transfer poor population can be found in Appendix I, table 16.
NA—not available.

LEGISLATIVE ACTION: 1981–1982

The 97th Congress acted three times to hold down costs of the food stamp program and revise administrative rules: The Omnibus Budget Reconciliation Act of 1981; the Agriculture and Food Act of 1981; and the Omnibus Budget Reconciliation Act of 1982. The Congressional Budget Office (CBO) has estimated these actions held food stamp spending for fiscal year 1982 through fiscal year 1985 nearly $7 billion (or 13 percent) below what would have been spent under pre-1981 law: down $1.5 billion in fiscal year 1982; $1.3 billion in fiscal year 1983; $2 billion in fiscal year 1984; and $2.1 billion in fiscal year 1985.

In addition to numerous changes in administrative rules and actions aimed at reducing fraud and abuse, the cost-saving measures enacted in the 97th Congress consisted primarily of:

Delaying various inflation indexing adjustments that would have increased benefits (for example, no benefit indexing occurred in fiscal year 1982);

Reducing the maximum benefit guarantee to 99 percent (rather than 100 percent) of the cost of purchasing food in the Agriculture Department's Thrifty Food Plan, thereby slightly reducing potential benefits to all recipients (a loss of between $1 and $4 per household per month in the fiscal year 1983 inflation indexing of benefits, for example);

Reducing first-month benefits by prorating them according to the date when a household applies or reapplies;

Changing the rules governing how benefit calculations are rounded off;

Placing a gross income eligibility ceiling of 130 percent of the Federal poverty levels on all households except those with elderly or disabled members;

Replacing the food stamp program in Puerto Rico with an $825-million-a-year nutritional assistance block grant;

Reducing benefits slightly for those with earned income by counting more of their income;

Substantially eliminating eligibility for most strikers and postsecondary students;

Reducing benefits based on estimated household shelter expenses for some recipients;

Allowing States or localities to set up food stamp "workfare" programs;

Setting specific targets for States to meet in reducing the rate of erroneous benefit payments, with penalties for States that do not meet their targets; and

Requiring that many food stamp recipients report monthly on their income and other circumstances, and that States use a recent *prior* month's income in determining benefits rather than projecting benefits based on *current* income.

These actions did *not* cause a direct reduction in benefits for most food stamp households, although they delayed or lowered benefit increases scheduled under previous law. However, some 1 million persons did lose eligibility, and recipients are losing some benefits because of the implementation of rules governing treatment of shelter expenses and earnings, the monthly reporting/prior-month accounting system, certain new administrative rules, and limited funding for Puerto Rico block grant.

LEGISLATIVE ACTION: 1983–1984

The 98th Congress made few significant revisions to food stamp law in 1983 and 1984:

—In Public Law 98–204, some of the Federal requirements for monthly reporting and retrospective budgeting (MRRB) in administering benefits for food stamp recipients were loosened and the Agriculture Department's authority to waive MRRB requirements was greatly increased;

—In the Deficit Reduction Act of 1984 (Public Law 98–369), the ability of State welfare agencies to verify recipients' income and assets through the use of Internal Revenue Service information on unearned income was expanded, and recouping overissued benefits by "intercepting" Federal income tax refunds was permitted; and

—In Public Law 98–473, an across-the-board 1-percent increase in the maximum allotment was enacted, effective November 1984.

Legislative Action: 1985–1986

In 1985, the Food Security Act (Public Law 99–198) significantly liberalized food stamp benefit and eligibility rules, and added a requirement that all States implement employment-related requirements for food stamp recipients. The Act also extended the authorization for food stamp appropriations through fiscal year 1990, with annual dollar limits rising from $13 billion in 1986 to $16 billion in 1990. The provisions affecting programs under the Food Stamp Act (including Puerto Rico's nutritional assistance block grant) are expected to add between $500 million and $1.1 billion in new spending over the next 5 years.

Major *new initiatives* in the 1985 legislation included:

—A requirement that States set up an employment and training program of their own design for employable food stamp recipients (including workfare, job search, and training as options);

—Provisions encouraging States to computerize food stamp program operations;

—A prohibition on the collection of sales taxes on food stamp purchases;

—A requirement that households composed entirely of AFDC or SSI recipients be judged automatically eligible for food stamps;

—A prohibition against banks charging fees to retailers for handling food stamps, as long as certain requirements are met;

—An expansion of existing pilot project authority for States and localities to use simplified application and standardized benefit procedures for AFDC, SSI, and Medicaid recipients in the food stamp program;

—Permission for States to disregard the first $50 a month of child support payments as income for food stamp purposes, if the State pays for food stamp benefit cost of doing so; and

—A 6-month moratorium on collecting fiscal sanctions owed by States for high rates of erroneous payments, and a required study of the food stamp quality control system;

Provisions *increasing benefits* in the 1985 legislation included:

—An increase in the earned income deduction from 18 to 20 percent, thereby increasing benefits for those with earnings;

—Provisions significantly increasing the degree to which high shelter costs and dependent-care expenses are taken into account in determining benefits, thereby raising benefis for those with these expenses;

—Provisions expanding the definition of "disabled person" for food stamp purposes, thereby increasing benefits to some not previously classified as disabled by extending to them the special treatment given the elderly and disabled; and

—Increases in the nutritional assistance block grant to Puerto Rico over the next 5 years (though these increases did not keep pace with inflation).

Eligibility liberalizations enacted included:

—Increases in the dollar limits on assets that can be held by eligible households;

—Exclusion of assets having liens against them;

—Liberalization of the treatment of assets of those who are self-employed;

—Liberalization of rules governing disqualification of persons failing to fulfill employment-related requirements; and

—Liberalization of certain rules dealing with disqualification of students in Job Training Partnership Act programs and those attending schools that do not require a high school diploma.

Benefit reduction provisions require:

—Counting earnings to on-the-job trainees under Job Training Partnership Act programs, except for dependents less than 19 years of age;

—Counting all but the tuition and mandatory fee components of education grants and loans, regardless of the form of the aid; and

—Counting the portion of cash welfare payments paid for living expenses without regard to the form of the payment (except for certain types of aid such as emergency or medical assistance).

In 1986, Congress amended the omnibus anti-drug abuse measure (enacted as P.L. 99–570) to allow homeless persons in shelters to participate in the program and to allow homeless persons to voluntarily use their food stamps for prepared meals served by shelters and soup kitchens.

Other 1986 legislation affecting food stamps included the Human Services Reauthorization Act (P.L. 99–425) and the Higher Education Act Amendments (P.L. 99–498). These acts liberalized the food stamp eligibility and benefit treatment of recipients of benefits under the Low-Income Home Energy Assistance Program (LIHEAP) and of student income from Federal education aid programs.

LEGISLATIVE ACTION: 1987

In 1987, four measures revising food stamp rules were enacted. The Stewart B. McKinney Homeless Assistance Act (P.L. 100–77) incorporated provisions expected to add net Federal costs of $54 million in fiscal year 1988 and nearly $70 million a year in later years. They included a small benefit increase for households with very high shelter costs, benefit increases for certain homeless households residing in "welfare hotels," authority for States to operate "outreach" programs to inform the homeless about food stamps (with 50-percent Federal cost-sharing), a benefit increase for parents with minor children living with relatives if the relatives purchase and prepare meals separately from the parents with minor children, a requirement that "expedited service" be provided to the homeless and those with extremely high shelter costs, and two cost-saving changes that delay the annual adjustment of food stamp income eligibility guidelines by 3 months and increase the penalty assessed those who fraudulently fail to report earnings. A second law, the Older Americans Act Amendments (P.L. 100–175) required the food stamp program to disregard income received by participants in employment programs for the elderly (so-called "title V" programs), and authorized grants to States to conduct outreach efforts to inform the elderly about food stamps, SSI, and Medicaid. The Charitable Assistance and Food Bank Support Act (P.L. 100–232) required the food stamp program to disregard income received as cash donations from private nonprofit charitable organizations (up to $300 a quarter). And, at the end of 1987, the Omnibus Budget Reconciliation Act (P.L. 100–203) authorized a special demonstration project for Washington State under which the State may test alternatives to the current welfare system, such as combining various welfare benefits and "cashing out" food stamps.

LEGISLATIVE ACTION: 1988

In 1988, four laws included provisions affecting the Food Stamp program. The most important, the Hunger Prevention Act of 1988 (P.L. 100–435), increased food stamp benefits across the board, liberalized several eligibility and benefits rules, eased program access and administrative rules, and restructured the food stamp employment and training program and quality control system:

—The across-the-board increase in the maximum benefit (over and above any inflation adjustments) called for by the Act equals 0.65 percent in fiscal year 1989, 2.05 percent in fiscal year 1990, and 3 percent in later years. As a result, every food stamp household will receive a benefit increase equal, in absolute terms, to the increase in the maximum benefit.

—Liberalized eligibility and benefit rules were: (1) increased benefits to those with dependent care expenses, (2) extension of liberal treatment for disabled applicants and recipients to new categories of disability, (3) addition of a new income disregard for advance payment of earned income tax credits, and (4) liberalized treatment for applicant and recipient farm households.

—Major provisions pertaining to program access and administration included: (1) authorization of 50-percent Federal cost-sharing for State-option "outreach" activities to inform low-income persons about the Food Stamp program, (2) required coordination with cash welfare program application procedures, (3) allowing monthly reporting and retrospective accounting procedures at State option, rather than requiring it for some households, (4) allowing training of community volunteer and nonprofit agency personnel to aid in screening food stamp applicants, (5) a requirement for issuance of the first 2 months' worth of benefits in a single allotment, in some instances, (6) expiring provisions granting automatic food stamp eligibility to AFDC and SSI recipients and allowing eligibility for the homeless in shelters were made permanent, (7) benefits converted to cash as part of a demonstration project were required to be disregarded for food stamp purposes, and (8) the Agriculture Department was given some discretion in its treatment of food retailers who have violated food stamp rules.

—Employment and training provisions were revised by: (1) allowing for some expansion in the types of activities allowed (e.g., basic skills' education), (2) requiring increased support for participants' dependent care expenses, and (3) mandating new performance standards.

—The quality control system was revamped to substantially reduce fiscal sanctions on States for erroneous benefit determinations, retroactively to fiscal year 1986.

Other laws enacted in 1988 made minor or technical changes to food stamp law: Public Law 100–387 liberalized certain rules affecting migrant and seasonable farmworkers; Public Law 100–481 made a technical correction in law in order to allow Washington State to proceed with its Family Independence Program; Public Law 100–619 changed an effective date in the Hunger Prevention Act of 1988 in order to allow earlier implementation of the provision affecting food retailers.

TABLE 9.—HISTORICAL FOOD STAMP STATISTICS

Fiscal year	Total Federal spending (in millions)[1]		Average monthly participation (in millions of persons)	Average monthly benefits (per person)		4-person maximum monthly allotment[2]
	Current dollars	Constant (1988) dollars[3]		Current dollars	Constant (1988) dollars[3]	
1972[4]	$1,871	$5,161	11.1	$13.50	$37.20	$108
1973	2,211	5,641	12.2	14.60	37.20	112
1974	2,843	6,097	12.9	17.60	37.50	116
1975[5]	4,624	9,037	17.1	21.40	41.50	150
1976	5,692	10,491	18.5	23.90	43.60	162
Transition quarter[6]	1,367	2,511	17.3	24.40	44.40	166
1977	5,469	9,647	17.1	24.70	43.20	166
1978	5,573	9,017	16.0	26.80	42.90	170
1979[7]	6,995	10,165	17.7	30.60	44.00	182
1980	9,188	12,330	21.1	34.40	45.90	204
1981	11,308	13,888	22.4	39.50	48.30	209
1982	[8] 11,117	[8] 13,144	[9] 22.0	[10] 39.20	[10] 46.20	233
1983	[8] 12,733	[8] 14,839	[9] 23.2	[10] 43.00	[10] 50.00	253
1984	[8] 12,470	[8] 14,069	[9] 22.4	[10] 42.70	[10] 48.10	253
1985	[8] 12,599	[8] 13,914	[9] 21.4	[10] 45.00	[10] 49.70	264
1986	[8] 12,528	[8] 13,559	[9] 20.9	[10] 45.50	[10] 49.30	268
1987	[8] 12,539	[8] 12,987	[9] 20.6	[10] 45.80	[10] 47.40	271
1988 (est.)	[8] 13,289	[8] 13,289	[9] 20.1	[10] 49.80	[10] 49.80	290

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[1] Federal costs, obligations including spending for benefits and administration.

[2] For the 48 contiguous States and the District of Columbia; as in effect at the beginning of the fiscal year, in current dollars.

[3] Constant dollar adjustments made using the overall Consumer Price Index for All Urban Consumers (CPI–U) for administrative cost and the CPI–U "food at home" component for benefits.

[4] The first fiscal year in which benefit and eligibility rules were, by law, nationally uniform and indexed for inflation.

[5] The first fiscal year in which food stamps were available nationwide.

[6] July through September 1976.

[7] The fiscal year in which the food stamp purchase requirement as eliminated, promoting increased participation among eligible households.

[8] Includes funding for Puerto Rico's nutrition assistance block grant.

[9] Includes persons receiving aid under Puerto Rico's nutrition assistance program.

[10] Does not reflect slightly lower benefits in Puerto Rico.

Notes: Allotment levels were indexed for inflation annually through calendar 1973, and semi-annually from January 1974 through calendar 1980. Since 1980, allotment levels have been increased in January 1981, October 1982, October 1983, October 1984, November 1984, October 1985, October 1986, October 1987, and October 1988 ($300).

Figures presented in this table have been revised from similar tables presented in earlier versions of this print to reflect more recent spending information and more precise inflation adjustments for constant dollar amounts.

Compiled by the Congressional Research Service.

MEDICAID [18]

Medicaid, authorized under title XIX of the Social Security Act, is a Federal-State matching entitlement program providing medical assistance for low-income persons who are aged, blind, disabled, members of families with dependent children and certain other pregnant women and children. Within Federal guidelines, each State designs and administers its own program. Thus there is substantial variation among the States in terms of persons covered, types and scope of benefits offered, and amounts of payments for services.

Medicaid eligibility is generally linked to eligibility under programs within the jurisdiction of the Committee on Ways and Means, namely AFDC and SSI. Further, some poor aged persons are covered under both the Medicare and Medicaid programs.

ELIGIBILITY

Generally, eligibility for Medicaid is linked to actual or potential receipt of cash assistance under the federally assisted Aid to Families with Dependent Children (AFDC) program and the Federal Supplemental Security Income (SSI) program.

While a connection to cash assistance is still the primary way to establish Medicaid eligibility, recent legislation has expanded the population groups eligible for program coverage. States are now required to cover all pregnant women meeting the States' income and resources requirements, whether or not they are receiving cash assistance. They are also required to phase-in coverage of all children under age 7 who meet such income and resources standards. Further, States have been given the option of extending their programs to cover additional low-income target groups. Beginning July 1989, States are required to phase-in Medicaid coverage for pregnant women and infants below the poverty line. Beginning January 1, 1989, States are required to phase-in coverage of Medicare cost-sharing charges for the Medicare population with incomes below poverty.

There are two broad classes of eligibility under Medicaid: categorically needy and medically needy. All States are required to cover certain categorically needy persons (mandatory categorically needy) and may extend categorically needy coverage to certain additional persons (optional categorically needy). Coverage of the medically needy is optional with the States.

A. CATEGORICALLY NEEDY

All States [19] cover the "categorically needy" under their Medicaid programs. Generally, these are AFDC and SSI recipients, though States are given certain options with respect to coverage of the SSI population.

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[18] For further information on the Medicaid program see: U.S. Congress, House Committee on Energy and Commerce, Medicaid Source Book: Background Data and Analysis, Energy and Commerce Committee Print 100-AA. U.S. Govt. Print. Off. November 1988.

[19] Arizona does not operate a traditional Medicaid program. Beginning October 1, 1982, it began implementation of a demonstration project under which a specified set of services are provided to the indigent, primarily on a prepaid basis.

1. Coverage of families and children

(a) *Current requirements.*—A State is required to cover under Medicaid all persons receiving cash payments under its AFDC program. A State may, for example, have an AFDC–UP program which covers two-parent families where the principal breadwinner is unemployed. States are also required to extend categorically needy coverage to additional groups though they are not actually receiving a cash payment. Coverage must be extended for the following groups for an unlimited period, provided the individuals continue to meet the requisite criteria: persons whose cash payment would be less than $10; persons whose AFDC payments are reduced to zero because of recovery of overpayment of AFDC funds; certain work supplementation participants; certain children for whom adoption assistance agreements are in effect or foster care payments are being made under title IV–E of the Social Security Act; individuals ineligible for AFDC because of a requirement prohibited under Medicaid; and individuals eligible for Medicaid except for the 1972 Social Security increase.

States are also required to extend Medicaid coverage to additional groups of persons for specified time periods. Coverage must be extended for 4 months to certain families whose cash assistance has been terminated; this extension applies to families who received AFDC for at least 3 of the preceding 6 months and who lost coverage due to increased income from or hours of employment. Coverage must be extended for 4 months to certain families who, between August 16, 1984, and September 30, 1989, lose AFDC because of receiving child or spousal support payments. This extension applies to families who were receiving AFDC for at least 3 of the preceding 6 months. States must also extend coverage for 9 months to families losing AFDC because they no longer qualify for the 4-month disregard of $30 plus one-third of their monthly earned income; States have the option of extending this coverage for an additional 6 months to families who would be eligible for AFDC if the disregard were applied.

The law requires States to provide Medicaid coverage for certain additional pregnant women and children. They are required to cover under Medicaid all pregnant women, meeting AFDC income and resources requirements, from the medical verification of pregnancy. A woman who was eligible for and received Medicaid while pregnant remains eligible for all pregnancy-related and postpartum services under the plan through the end of the month in which the 60-day period (beginning on the last day of pregnancy) ends.

States are also required to phase-in Medicaid coverage for all young children who meet the income and resources requirements of the State's AFDC plan. A State is required to extend Medicaid coverage to all such children under age 7 born after September 30, 1983. Coverage for these children is mandated under Medicaid though the child may not meet the definition of "dependent child" under AFDC. For example, the child may be in a two-parent family where the principal breadwinner is not unemployed.

States may elect to extend categorically needy coverage to certain additional groups of AFDC-related persons though these persons are not actually receiving a cash payment. For example, Medicaid may cover families with unemployed parents even though the State does not have an AFDC–UP program.

They may also cover all or reasonable categories of individuals under age 21 (or at State option, under age 20, or 19, or 18) who would be eligible for AFDC if they met the definition of dependent child. Reasonable categories include children in two-parent families, those who live in privately subsidized foster care, or those who live in certain institutional settings such as intermediate care facilities. (Note that States are required to cover such children under age 7 born after September 30, 1983.)

(b) *New requirements.*—Effective April 1, 1990, States are required to extend Medicaid coverage for 12 months to families who lose cash assistance due to earnings. During the first 6 months they are required to provide each family the same Medicaid coverage that it had while on cash assistance. States have a "wrap around" option. During the second 6 months the States have the following options: (1) limiting the scope of Medicaid coverage to acute benefits; (2) imposing a monthly premium (not to exceed 3 percent of gross income) on those with incomes above the poverty line; (3) offering families the choice of basic Medicaid coverage (which may be limited to acute benefits) or one or more types of alternative coverage. During the entire period, States have the option of offering "wrap around" coverage instead of basic Medicaid coverage. Under this option, a State may use Medicaid funds to pay a family's expenses for premiums, deductibles and coinsurance for employer-based health care coverage. The employer's coverage is treated as a third party liability under Medicaid. This provision expires October 1, 1998, at which time the current law 4-month transitional benefit will be reinstated.

Effective October 1, 1990, States are required to extend Medicaid coverage to two-parent families where the principal breadwinner is unemployed. This provision expires October 1, 1998, at which time the current law provisions are reinstated.

2. Coverage of the aged, blind, and disabled

Most States provide Medicaid coverage to all recipients of Federal SSI payments. However, States have the option of limiting Medicaid coverage of SSI recipients by requiring such persons to meet any more restrictive eligibility criteria that were in effect on January 1, 1972 (before implementation of SSI). The requirements may be more restrictive than SSI in defining blindness, disability, or income and resources; however, they may not be more restrictive than those in effect under the State's Medicaid plan in January 1972 or more liberal than applicable under SSI or the State's supplementary payment program. The following 14 States currently employ more restrictive criteria:

Connecticut
Hawaii
Illinois
Indiana
Minnesota
Missouri
Nebraska
New Hampshire
North Carolina
North Dakota
Ohio
Oklahoma
Utah
Virginia

States which elect to use more restrictive criteria must allow applicants to deduct medical expenses from income (not including SSI or optional SSP payments) in determining eligibility. This is sometimes referred to as a "spend down." For example, if an applicant has a monthly income of $400 (not including any SSI or SSP payments) and the State's income standard is $350, the applicant would be required to incur $50 in medical expenses (i.e., spend down) before he would be eligible for Medicaid.

States are also required to extend Medicaid coverage to additional groups of aged, blind, and disabled persons provided the individuals continue to meet the requisite criteria. A State must cover former SSI recipients who receive Social Security benefits, but lost their SSI payments following a Social Security cost-of-living increase (COLA), if they would still be eligible for SSI but for the COLA increase. A State must also cover certain disabled widows and widowers receiving increases under the 1983 amendments or who lose SSI upon entitlement at age 60 to early widow's or widower's Social Security benefits; individuals receiving mandatory State supplements; certain disabled adult children; and persons eligible for Medicaid in 1973 as long as they continue to meet the 1973 criteria.

Further, the law requires coverage of "qualified severely impaired" individuals. The definition of such individuals is virtually identical to that under section 1619(b) of the act. Specifically, these are persons who in the month preceding application of the provision were eligible for Medicaid and received SSI, SSP, or special SSI payments under 1619(a). Further, the Secretary must determine for these persons that: they continue to be blind or continue to have a disabling physical or mental impairment; except for earnings, they continue to meet all nondisability related requirements for SSI eligibility; they do not have enough unearned income to make them ineligible for SSI payments; the lack of Medicaid eligibility would seriously inhibit ability to continue or obtain employment; and they do not have earnings that are reasonably equivalent to the benefits (SSI, SSP if provided, Medicaid, and publicly funded attendant care services) that would be available in the absence of earnings.

States may provide Medicaid coverage to additional groups of persons including recipients of State-only supplementary cash payments; certain institutionalized individuals whose income, before deductions, does not exceed a special income level (which may not exceed 300 percent of the SSI benefit amount payable to an individual in his own home with no other resources); and certain noninstitutionalized disabled children who would be eligible if they were in an institution.

B. MEDICALLY NEEDY

States may also cover the medically needy under their Medicaid programs. These are persons: (1) who, except for income and resources, fall into one of the categories covered by the State (i.e., aged, blind, disabled, families with dependent children, pregnant women, and children); and (2) whose income and/or resources are in excess of the standards for categorically needy coverage. A State having a medically needy program must, at a minimum, provide coverage to children who would be eligible as mandatory categorically needy, and to pregnant women who would be eligible as either mandatory or optional categorically needy except for their incomes and resources. As a minimum, the State is required to offer ambulatory services to these children and prenatal and delivery services to the pregnant women. However, most States which offer medically needy programs also cover additional categories of persons.

States having medically needy programs establish income and resources standards. They must be based on family size, uniform for all individuals in a covered group, and reasonable. Further, for purposes of Federal matching payments, the income standard cannot exceed 133⅓ percent of the maximum payment for similarly sized families under the State's AFDC program.

Many persons who become medically needy do so only after they have reduced their incomes and/or resources to the requisite level. The process by which individuals reduce their income to the standard is known as the "spend down." For example, if an applicant has a monthly income of $400 and the State's income standard is $350, the applicant would be required to incur $50 in medical expenses (i.e., spend down) before he would be eligible for Medicaid.

The following States and jurisdictions provide medically needy coverage:

Arkansas
California
Connecticut
Washington, D.C.
Florida
Georgia (limited program)
Hawaii
Illinois
Iowa
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Montana
Nebraska
New Hampshire
New Jersey
New York
North Carolina
North Dakota
Northern Mariana Islands
Oklahoma
Oregon
Pennsylvania
Puerto Rico
Rhode Island
Tennessee
Texas (limited program)
Utah
Vermont
Virgin Islands
Virginia
Washington
West Virginia
Wisconsin

C. TARGET GROUPS

Beginning with OBRA86, legislation was enacted which permitted States, without raising their cash assistance standards, to extend categorically needy coverage to certain target groups with incomes below the Federal poverty line. OBRA87 expanded those options. With the enactment of the Medicare Catastrophic Coverage Act of 1988 (P.L. 100-360), coverage of certain of these groups is mandated on a phased-in basis.

1. Pregnant Women, Infants, and Young Children

(a) *Current options.*—States currently have the option of providing Medicaid coverage to pregnant women, infants to age 1, and children up to age 8 (born on or after October 1, 1983) with incomes below a State-established level not exceeding 100 percent of the Federal poverty line. States would thus be able to cover all such children by fiscal year 1991. See table 20 on status of implementation of this option, effective July 1, 1988.

Imposition of resource standards for this new coverage category is optional with the States. If one is established, it may not be more restrictive in the case of pregnant women than that under SSI. For infants and children, States are not able to apply a resource standard that is more restrictive than the AFDC standard. Newly eligible pregnant women are only eligible for services related to pregnancy. For infants and children, coverage is identical to that offered other categorically needy recipients.

States which chose to cover this new population group prior to December 22, 1987, are prohibited from lowering their AFDC standard as in effect on April 17, 1986. States making elections subsequent to that date are prohibited from lowering their AFDC standard as in effect on July 1, 1987.

OBRA87 also permitted States, effective July 1, 1988, to increase the State-established income level for pregnant women and infants to 185 percent of the Federal poverty guideline. States could impose a premium for such coverage. The amount of the premium could not exceed 10 percent of the amount by which the family's income (less child care expenses) exceeded 150 percent of the Federal poverty guideline for a family of comparable size. As of August 1988, Kentucky had extended coverage to 125 percent of poverty, while Iowa and West Virginia extended coverage to 150 percent. The following States extended coverage to 185 percent of poverty: Connecticut, Maine, Massachusetts, Michigan, Minnesota, Mississippi, and Vermont.

(b) *Mandated phase-in.*—The Medicare Catastrophic Coverage Act (P.L. 100-360) requires States to phase-in coverage for all pregnant women and infants under age one with incomes at or below the Federal poverty line. Effective July 1, 1989, States are required to extend coverage to all such persons with incomes at or below 75 percent of poverty. Effective July 1, 1990 coverage must be extended to all such persons with incomes at or below 100 percent of poverty. Coverage for pregnant women is limited to services related to pregnancy (including prenatal, delivery, postpartum and family planning services) and to other conditions which may complicate the pregnancy. Coverage for infants includes coverage for all Medicaid services offered to cash assistance recipients.

Certain maintenance of effort requirements are included, during the first year of the phase-in, for States which had already elected to provide coverage to pregnant women and infants with incomes between 75 percent and 100 percent of poverty. If on enactment of Public Law 100-360, a State offered this coverage it would be required to continue it. The maintenance of effort requirement would also apply in the case of a State which, as of enactment, had enacted legislation authorizing or appropriating funds to provide such coverage but had not actually implemented it yet. States are precluded from reducing their AFDC cash payment levels below those in effect May 1, 1988.

2. Aged and disabled

(a) *Current options.*—OBRA86 created a second optional categorically needy coverage group composed of the aged and disabled with family incomes up to a State-established level that does not exceed 100 percent of the Federal poverty line. The provision was effective July 1, 1987. A State electing this option would be required to cover some newly eligible pregnant women and infants. States are required to apply the SSI resource standards, or the higher standards applicable under its medically needy program to this population group.

A State choosing this option is required to offer the benefit package available to other categorically needy recipients. Alternatively, the State may elect to cover just the Medicare cost-sharing charges for this population group (this is sometimes referred to as buy-in coverage). The cost-sharing charges are: part A premiums, deductibles and coinsurance, and part B premiums, deductibles, and coinsurance. At State option, a State may also cover premiums for enrollment of beneficiaries in Medicare-qualified HMOs.

As of March 1988, the District of Columbia, Florida, and New Jersey had elected to provide full Medicaid coverage for aged and disabled persons under the OBRA86 provision. The District of Columbia and New Jersey provided coverage for persons below 100 percent of poverty while Florida provided coverage for persons below 90 percent of poverty.

(b) *Mandated phase-in of Medicare buy-in.*—The Medicare Catastrophic Coverage Act of 1988 makes a number of changes to the Medicare program for the aged and disabled. Medicare will now pick up some expenses previously paid for under Medicaid for persons eligible for both programs.

Public Law 100-360 requires States to phase-in buy-in coverage for Medicare beneficiaries with incomes below the poverty line. Specifically, States are required to pay Medicare premiums (including the part A premium where applicable), deductibles, and coinsurance for elderly and disabled enrollees whose incomes are at or below poverty and whose resources are at or below twice the resources standard used under the SSI program.

Coverage is to be phased-in as follows:

—January 1989—persons with incomes at or below 85 percent of poverty;

—January 1, 1990—persons with incomes at or below 90 percent of poverty;

—January 1, 1991—persons with incomes at or below 95 percent of poverty; and

—January 1, 1992—persons with incomes at or below 100 percent of poverty.

In the case of a State, which used, as of January 1, 1987, an income standard for the aged that was more restrictive than the SSI standard, the threshold would be set at 80 percent of poverty on January 1, 1989. The threshhold would be increased five percentage points each year until January 1, 1993, when all persons at or below 100 percent of poverty are covered. The phase-in schedule for the buy-in for the new catastrophic prescription drug benefit is the same as for other services. Thus, as of January 1, 1991 (when the new Medicare catastrophic drug benefit applies for all outpatient prescription drugs), most States will be required to buy-in for the elderly and disabled with incomes at or below 95 percent of poverty.

MEDICAID AND POOR CHILDREN

Roughly one-half of all poor children are covered by Medicaid, according to CPS estimates. Of the 13.0 million children under age

18 estimated to be in poverty in 1987, 6.9 million were covered. Table 10 shows that the percentage of covered poor children was 48.5 percent in 1979. After a decrease to 46.5 percent in 1981, the percentage returned to 48.5 percent in 1983. Since then, the percentage of covered poor children has continually increased to 53.0 percent in 1987. These numbers reflect mandated and optional expansions in Medicaid coverage of children recently authorized by the Congress. This trend is expected to continue.

TABLE 10.—MEDICAID COVERAGE OF POOR CHILDREN UNDER AGE 18, 1979–87

Year	Number of poor children (in thousands)	Number of poor children with Medicaid coverage (in thousands)	Percentage of poor children with Medicaid coverage
1979	10,111	4,907	48.5
1980	11,764	5,525	47.0
1981	12,505	5,811	46.5
1982	13,647	6,429	47.1
1983	13,807	6,693	48.5
1984	13,419	6,622	49.3
1985	13,010	6,569	50.5
1986	12,876	6,676	51.8
1987	13,016	6,905	53.0

Source: Current Population Survey, Annual March Income Supplements. Table prepared by CRS. These estimates of Medicaid coverage of poor children are based on CPS data collected annually by the Bureau of the Census. Because the estimates are based on a sample, they may differ somewhat from the figures that would have been obtained if a complete census had been taken. CPS data on Medicaid are lower than program data from HCFA because beneficiaries tend to underreport their benefits in these surveys. Respondents may also underreport their sources and amounts of income. Poverty status is based on total cash income, including welfare income; Medicaid eligibility is based on income prior to receipt of welfare benefits. The CPS totals do not include children in institutions. While these considerations must be taken into account, general trends can be observed from the data.

SERVICES

States are required to offer the following services to categorically needy recipients under their Medicaid programs: inpatient and outpatient hospital services; laboratory and X-ray services; skilled nursing facility (SNF) services for those over age 21; home health services for those entitled to SNF care; early and periodic screening, diagnosis, and treatment (EPSDT) for those under age 21; family planning services and supplies; physicians' services, and nurse-midwife services. They may also provide additional medical services such as drugs, intermediate care facility (ICF) services, eyeglasses, inpatient psychiatric care for individuals under age 21 or over 65 (see table 19). States are permitted to establish limitations on the amount of care provided under a service category (such as limiting the number of days of covered hospital care or number of physicians' visits).

Federal law establishes the following requirements for coverage of the medically needy: (1) if a State provides medically needy coverage to any group it must provide ambulatory services to children and prenatal and delivery services for pregnant women; (2) if a State provides institutional services for any medically needy group it must also provide ambulatory services for this population group; and (3) if the State provides medically needy coverage for persons in intermediate care facilities for the mentally retarded (ICF/MRs) or institutions for mental diseases, it must offer to all groups covered in its medically needy program the same mix of institutional and noninstitutional services as required under prior law (that is, either all of the mandatory services or alternatively the care and services listed in 7 of the 20 paragraphs in the law defining covered services).

FINANCING

The Federal Government helps States share in the cost of Medicaid services by means of a variable matching formula which is adjusted annually. The matching rate, which is inversely related to a State's per capita income, can range from 50 percent to 83 percent though currently the highest rate is 79.8 percent. Federal matching for the territories is set at 50 percent with a maximum dollar limit placed on the amount each territory can receive. The Federal share of administrative costs is 50 percent for all States except for certain items where the authorized rate is higher.

REIMBURSEMENT POLICY

States have considerable leeway in setting reimbursement levels for services. They are required to reimburse hospitals, skilled nursing facilities, and intermediate care facilities at rates that are reasonable and adequate to meet the cost which must be incurred by efficiently and economically operated facilities in order to meet applicable laws and quality and safety standards. In developing their payment rates for hospitals, States are required to take into account the situation of facilities which serve a disproportionate number of low-income patients. Further, hospital payment rates must be sufficient to assure that Medicaid patients have reasonable access to services of adequate quality.

Practitioners and providers are required to accept payments under the program as payment in full for covered services except where nominal cost-sharing charges may be required. States may generally impose such charges with certain exceptions. They are precluded from imposing such charges on services for children under 18, services related to pregnancy, family planning or emergency services, HMO services for the categorically needy, and services provided to SNF or ICF inpatients who are required to spend all of their income for medical care except for a personal needs allowance.

ADMINISTRATION

Medicaid is a State-administered program. At the Federal level, the Health Care Financing Administration (HCFA) of the Department of Health and Human Services is responsible for overseeing State operations.

Federal law requires that a single State agency be charged with administration of the Medicaid program. Generally, that agency is either the State welfare agency, the State health agency, or the umbrella human resources agency. The single State agency may contract with other State entities to conduct some program functions. Further, States may process claims for reimbursement themselves or contract with fiscal agents or health insuring agencies to process these claims.

RECENT LEGISLATIVE CHANGES

The following is a summary of the major Medicaid changes enacted as part of the Omnibus Budget Reconciliation Act of 1987 (OBRA87), Public Law 100-203:

1. *Optional coverage of pregnant women and infants.*—OBRA87 allowed States to expand the scope of coverage authorized under OBRA86 for pregnant women and children. It permitted States to accelerate coverage of children under age 5 whose income is below the poverty line. Effective July 1, 1988, States can cover children under age 2, 3, 4 or 5 (as selected by the State) who are born after September 30, 1983. Effective October 1, 1988, States can expand coverage to children under age 8 born after that date. States are thus able to cover all such children by Fiscal Year 1991.

The law also permitted States, effective July 1, 1988, to increase the State-established income level for pregnant women and infants to 185 percent of the Federal poverty line. States could impose a premium for such coverage. The amount of the premium could not exceed 10 percent of the amount by which the family's income (less childcare expenses) exceeded 150 percent of the Federal poverty line for a comparable sized family.

2. *Coverage of children up to age 7.*—States are required to extend Medicaid coverage to all children under age 7, born after September 30, 1983, who meet the income and resources requirements of the State's AFDC plan. (Previously the mandated coverage provision extended to children under age 5 born after September 30, 1983.) Covergae for these children is mandated under Medicaid though the child may not meet the definition of "dependent child" under AFDC.

3. *Home and community-based services for the elderly.*—The law established a new waiver authority, separate from the existing "2176 waiver authority", to allow States on a budget-neutral basis, to provide home and community-based services for the elderly at risk of nursing home care. The budget neutrality formula limits States electing the waiver to a maximum rate of growth in institutional and noninstitutional long-term care services to 7 percent, compounded annually.

4. *Coverage of clinic services for the homeless.*—States, at their option may pay for services furnished by clinic personnel to eligible homeless individuals at locations outside the clinic.

5. *Payments to commonwealths and territories.*—The payment ceilings for the commonwealths and territories are increased by a total of $10.8 million in fiscal year 1988, $14.0 million in fiscal year 1989, and $15.4 million in fiscal year 1990.

6. *Payments to disproportionate share hospitals.*—The law implemented the existing requirement that States take into account the situation of hospitals serving a disproportionate share of low-income patients with special needs. It required each State, by July 1, 1988, to submit a plan amendment that defined disproportionate share hospitals and provided for an appropriate increase in the rate of payment for services provided by such hospitals. The payment adjustments are to be progressively phased in; full compliance is to be achieved in fiscal year 1990.

7. *State demonstration projects.*—The law extended the Arizona demonstration project through September 30, 1989. Further it authorized the Secretary to grant specified Medicaid waivers to New York to implement its Prenatal/Maternity/Newborn Care pilot program and to Washington State for its Family Independence program.

8. *Nursing home quality improvements.*—The law revised the existing participation requirements, survey and certification procedures, and enforcement remedies for SNFs and ICFs under Medicaid.

The following is a summary of the major Medicaid changes enacted as part of the Medicare Catastrophic Coverage Act of 1988 (as amended by the Family Support Act of 1988):

1. *Pregnant women and children.*—The law mandates coverage for certain pregnant women and infants whose coverage was previously optional with the States. It requires States to phase-in coverage of pregnant women with incomes below 100 percent of the poverty line. Effective July 1, 1989, States are required to cover such persons with incomes at or below 75 percent of poverty and effective July 1, 1990, States are required to cover those with incomes below 100 percent of poverty.

2. *Elderly and disabled poor.*—States are required to phase-in buy-in coverage for poor Medicare beneficiaries with incomes below the poverty line. Specifically, they are required to pay Medicare premiums, deductibles, and coinsurance for indivduals whose incomes are at or below the poverty line and whose nonexempt resources are at or below twice the resources standard used in the SSI program. Generally the mandate would be phased in over 4 years with coverage extended as follows: January 1989, persons with incomes at or below 85 percent of poverty; January 1990, persons with incomes at or below 90 percent of poverty; January 1991, persons with incomes at or below 95 percent of poverty; and January 1, 1992, persons with incomes at or below 100 percent of poverty.

3. *Protection of income and resources for maintenance needs of community spouse.*—The law provides, effective September 30, 1989, for a one-time determination of countable resources to be made at the time of application for benefits. For institutionalized persons with a community spouse, one-half of the value of total resources is to be attributable to each spouse, subject to a minimum of $12,000 and a maximum of $60,000 for the community spouse.

After an institutionalized individual has established eligibility for Medicaid, States would be required to allow the spouse living in the community to receive a sufficient amount of the institutionalized spouse's income to bring the community spouse's income up to specified levels. These are 122 percent of povery effective September 30, 1989; 133 percent of poverty effective July 1, 1991; and 150 percent of poverty effective July 1, 1992. The monthly protected income level could not exceed $1,500.

4. *Transfer of assets.*—The law (as amended by P.L.100–485) established a national transfer of assets policy. The new requirements apply to resources disposed of on or after July 1, 1988. However, the requirements do not apply to inter-spousal transfers occurring before October 1, 1989. The new provisions apply only with respect to an institutionalized individual.

States are required to make a determination whether an individual has disposed of resources for less than fair market value during or after the 30-month period beginning immediately before either: (a) the date the individual becomes institutionalized, if the individual is entitled to Medicaid on that date; or (b) the date the individual applies for assistance while an institutionalized individual. If such a transfer has occurred, a period of ineligibility is established beginning with the month the resources were transferred. The requirements do not apply to certain specified transfers.

The law repealed the prior SSI law's transfer of assets provisions. The Secretary is required, however, to inform SSI applicants of the new Medicaid provisions at the time they apply (or eligibility is redetermined) for SSI benefits.

5. *Services for infants.*—The law specifies that if a State pays for inpatient hospital services on a prospective basis, it must provide an adjustment in payment amounts for disproportionate share hospitals providing medically necessary services for infants. This outlier adjustment is to take into account exceptionally high costs or exceptionally long lengths of stay for this population group.

The following is a summary of the major Medicaid changes enacted as part of the Family Support Act of 1988.

1. *Transitional coverage.*—Effective April 1, 1990, States are required to extend Medicaid coverage for 12 months to families who lose cash assistance due to earnings. During the first 6 months they are required to provide each family the same Medicaid coverage that it had while on cash assistance. During the second 6 months the States have a number of options. This provision expires October 1, 1998, at which time the current law 4-month transitional benefit will be reinstated.

2. *Coverage for two parent families where the principal breadwinner is unemployed.*—Effective October 1, 1990, States are required to extend Medicaid coverage to two-parent families where the principal breadwinner is unemployed. This provision expires October 1, 1998, at which time the current provisions are reinstated.

PROGRAM DATA

Federal Medicaid outlays are estimated (in the absence of legislative changes) at 34.3 billion in fiscal year 1989, a 12.6 percent increase over the 30.5 billion estimated for fiscal year 1988.

Detailed information on State Medicaid programs is available in the House Energy and Commerce Committee Print 100–AA, Medicaid Source Book: Background Data and Analysis, November 1988.

TABLE 11.—HISTORY OF MEDICAID PROGRAM COSTS

Fiscal year	Total		Federal		State	
	Dollars (in millions)	Percent increase	Dollars (in millions)	Percent increase	Dollars (in millions)	Percent increase
1966 [1]	$1,658	....	$789	....	$869	....
1967 [1]	2,368	42.8	1,209	53.2	1,159	33.4
1968 [1]	3,686	55.7	1,837	51.9	1,849	59.5
1969 [1]	4,166	13.0	2,276	23.9	1,890	2.2
1970 [1]	4,852	16.5	2,617	15.0	2,235	18.3
1971	6,176	27.3	3,374	28.9	2,802	25.4
1972 [2]	8,434	36.6	4,361	29.3	4,074	45.4
1973	9,111	8.0	4,998	14.6	4,113	1.0
1974	10,229	12.3	5,833	16.7	4,396	6.9
1975	12,637	23.5	7,060	21.0	5,578	26.9
1976	14,644	15.9	8,312	17.7	6,332	13.5
TQ [3]	4,106	NA	2,354	NA	1,752	NA
1977	17,103	[4] 16.8	9,713	[4] 16.9	7,389	[4] 16.7
1978	18,949	10.8	10,680	10.0	8,269	11.9
1979	21,755	14.8	12,267	14.9	9,489	14.8
1980	25,781	18.5	14,550	18.6	11,231	18.4

TABLE 11.—HISTORY OF MEDICAID PROGRAM COSTS—Continued

Fiscal year	Total		Federal		State	
	Dollars (in millions)	Percent increase	Dollars (in millions)	Percent increase	Dollars (in millions)	Percent increase
1981	30,377	17.8	17,074	17.3	13,303	18.4
1982	32,446	6.8	17,514	2.6	14,931	12.2
1983	34,956	7.7	18,985	8.4	15,971	7.0
1984	37,631	7.7	20,094	5.8	17,537	9.8
1985 [5]	40,917	8.7	[6] 22,655	12.7	[6] 18,262	4.1
1986	44,851	9.6	24,995	10.3	19,856	8.7
1987	49,344	10.0	27,435	9.8	21,909	10.3
1988	[7] 54,788	11.0	30,462	11.0	[7] 24,326	11.0
1989 (current law estimate)	61,510	12.3	34,292	12.6	27,218	11.9
1990 (current law estimate)	66,900	8.8	37,398	9.1	29,502	8.4

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[1] Includes related programs which are not separately identified though for each successive year a larger portion of the total represents Medicaid expenditures. As of Jan. 1, 1970, Federal matching was only available under Medicaid.

[2] Intermediate care facilities (ICFs) transferred from the cash assistance programs to Medicaid effective January 1, 1972; data for prior periods do not include these costs.

[3] Transitional quarter (beginning of Federal fiscal year moved from July 1 to Oct. 1).

[4] Represents increase over fiscal year 1976, i.e., five calendar quarters.

[5] Includes transfer of function of State fraud control units to Medicaid from Office of Inspector General.

[6] Temporary reductions in Federal payments authorized for fiscal years 1982–84 were discontinued in fiscal year 1985.

[7] Preliminary.

Note: Totals may not add due to rounding.

Sources: "Budget of the U.S. Government" fiscal years 1969–89, and Health Care Financing Administration, Division of Budget.

TABLE 12.—UNDUPLICATED NUMBER OF MEDICAID RECIPIENTS BY ELIGIBILITY CATEGORY, FISCAL YEARS 1972–90

[Number in thousands]

Fiscal year	Total	Aged 65 or over	Blindness	Permanent and total disability	Dependent children under age 21	Adults in families with dependent children	Other [1]
Ending June:							
1972	17,606	3,318	108	1,625	7,841	3,137	1,576
1973	19,622	3,496	101	1,804	8,659	4,066	1,495
1974	21,462	3,732	135	2,222	9,478	4,392	1,502
1975	22,007	3,615	109	2,355	9,598	4,529	1,800
1976	22,815	3,612	97	2,572	9,924	4,774	1,836
Ending September:							
1977 [2]	22,832	3,636	92	2,710	9,651	4,785	1,959
1978	21,965	3,376	82	2,636	9,376	4,643	1,852
1979	21,520	3,364	79	2,674	9,106	4,570	1,727
1980 [3]	21,605	3,440	92	2,819	9,333	4,877	1,499
1981 [3]	21,980	3,367	86	2,993	9,581	5,187	1,364
1982 [3]	21,603	3,240	84	2,806	9,563	5,356	1,434
1983 [3]	21,554	3,371	77	2,844	9,535	5,592	1,129
1984 [3]	21,607	3,238	79	2,834	9,684	5,600	1,187
1985 [3]	21,814	3,061	80	2,937	9,757	5,518	1,214
1986 [3]	22,515	3,140	82	3,100	10,029	5,647	1,362
1987 [3]	23,183	3,260	85	3,300	10,225	5,623	1,412
1988 (current law estimate) [3]	23,930	3,467	91	3,415	10,440	5,664	1,140
1989 (current law estimate) [3]	24,669	3,564	93	3,471	10,738	5,801	1,198
1990 (current law estimate) [3]	25,290	3,635	95	3,540	11,005	5,916	1,251

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[1] This category is composed predominantly of children not meeting the definition of "dependent" children, i.e., "Ribicoff children."

[2] Fiscal year 1977 began in October 1976 and was the first year of the new Federal fiscal cycle. Before 1977, the fiscal year began in July.

[3] Beginning in fiscal year 1980, recipients' categories do not add to the unduplicated total due to the small number of recipients that are in more than one category during the year.

Source: HCFA, Office of the Actuary.

TABLE 13.—MEDICAID RECIPIENTS BY BASIS OF ELIGIBILITY—FISCAL YEAR 1987

State	Total recipients [1]	Aged	Blind	Disabled	AFDC child	AFDC adult	Other title XIX [2]
Alabama	289,285	70,396	1,561	71,133	92,543	50,449	2,743
Alaska	27,997	2,939	65	3,212	14,247	7,974	0
Arkansas	211,768	50,393	1,363	45,964	61,881	35,322	16,845
California	3,689,420	539,160	26,900	564,900	1,436,260	891,000	231,240
Colorado	189,025	39,554	215	26,369	83,468	43,811	5,627
Connecticut	217,249	37,112	224	25,392	93,275	48,729	12,517
Delaware	37,344	4,845	105	5,568	18,352	9,671	1,339
District of Columbia	96,635	9,625	49	15,500	45,035	24,250	2,176
Florida	639,858	122,534	3,033	123,127	252,759	124,833	13,572
Georgia	505,906	87,529	2,935	102,838	197,608	104,666	10,330
Hawaii	88,149	11,923	209	9,115	45,815	25,166	1,264
Idaho	39,984	6,002	31	6,690	18,626	8,400	235
Illinois	1,042,249	81,233	1,243	147,319	531,272	261,902	19,280
Indiana	300,625	46,823	1,124	48,471	142,541	83,077	4,433
Iowa	232,244	31,212	718	26,945	92,100	62,282	18,232
Kansas	144,166	50,372	248	19,227	75,974	38,797	6,268
Kentucky	410,680	53,577	2,058	76,348	186,092	110,742	16,461
Louisiana	464,185	90,990	1,844	71,261	211,092	86,143	2,855
Maine	122,875	21,549	261	21,085	60,963	34,476	0

Maryland	311,626	41,981	357	40,597	152,034	71,861	4,796
Massachusetts	541,470	102,060	7,756	82,668	194,688	116,516	37,782
Michigan	1,125,047	95,438	2,417	154,235	621,650	339,065	68,068
Minnesota	336,823	55,543	643	34,955	140,747	86,007	29,129
Mississippi	341,650	60,578	1,696	64,329	131,749	63,341	19,957
Missouri	368,853	63,300	1,233	57,444	157,779	86,352	2,745
Montana	58,143	6,972	97	8,280	24,231	16,697	1,831
Nebraska	107,126	16,220	197	11,540	43,890	25,898	9,381
Nevada	34,196	6,177	423	5,591	13,752	7,899	2,597
New Hampshire	33,341	8,298	286	5,358	7,409	11,973	17
New Jersey	661,084	86,235	1,436	82,617	306,031	156,543	9,875
New Mexico	97,391	12,227	469	18,376	42,640	22,333	1,346
New York	2,308,198	353,061	4,043	316,860	1,017,146	481,685	135,403
North Carolina	386,499	70,906	1,436	54,464	161,905	93,201	4,587
North Dakota	42,250	8,658	45	5,085	14,878	8,808	4,346
Ohio	1,131,736	97,278	1,599	122,800	618,092	264,020	27,947
Oklahoma	250,381	62,960	582	35,787	119,143	45,179	5,104
Oregon	167,757	18,324	953	19,786	74,452	48,923	5,319
Pennsylvania	1,101,734	125,673	1,512	147,896	603,262	267,038	84,272
Rhode Island	101,820	19,958	318	18,669	39,983	22,179	713
South Carolina	266,956	45,705	1,832	58,661	106,807	58,751	8,582
South Dakota	39,674	8,099	128	6,619	15,976	8,170	682
Tennessee	443,392	74,180	2,649	95,787	193,442	69,202	8,132
Texas	985,818	215,867	4,562	125,408	434,374	203,667	1,940
Utah	81,673	7,074	81	8,315	32,204	25,043	8,739
Vermont	50,096	8,517	86	6,846	21,176	13,063	408
Virginia	318,364	58,874	1,178	50,928	123,326	71,756	12,302

TABLE 13.—MEDICAID RECIPIENTS BY BASIS OF ELIGIBILITY—FISCAL YEAR 1987—Continued

State	Total recipients [1]	Aged	Blind	Disabled	AFDC child	AFDC adult	Other title XIX [2]
Washington	391,634	44,334	387	48,469	195,129	97,475	6,697
West Virginia	214,706	22,859	288	31,456	89,091	69,087	1,925
Wisconsin	410,637	100,390	1,392	93,457	282,730	192,989	12,656
Wyoming	26,710	3,658	73	1,983	10,572	10,376	48
Puerto Rico	1,682,778	0	878	73,183	567,011	512,971	528,752
Virgin Islands	14,104	1,156	12	646	8,041	3,520	729
U.S. total	21,486,429	3,259,172	84,340	3,225,730	9,650,191	5,106,787	882,743
All jurisdictions	23,183,311	3,260,328	85,230	3,299,559	10,225,243	5,623,278	1,412,224

[1] Total is unduplicated count of recipients. A small number of recipients are in more than one category during the year.
[2] This category is composed primarily of children not meeting the definition of dependent child, i.e. "Ribicoff Children".
Source: Health Care Financing Administration.

TABLE 14.—TOTAL AND PER CAPITA MEDICAID PAYMENTS FOR CATEGORICALLY NEEDY AND MEDICALLY NEEDY, PRELIMINARY ESTIMATES, FISCAL YEARS 1975, 1981, AND 1987

	1975			1981			1987			Real percent change 1975–87	
	Total amount	Percent of total	Per capita	Total amount	Percent of total	Per capita	Total amount	Percent of total	Per capita	Total spending	Per capita
Categorically needy:											
Receiving cash payments	$7,188	58.7	$431	$14,534	53.4	$861	$23,214	51.5	$1,374	13.6	12.1
Aged	1,341	11.0	555	2,480	9.1	1,270	4,099	9.1	2.361	7.5	49.6
Blind	61	.5	717	109	.4	1,527	212	.5	2,814	22.8	38.0

Disabled	2,042	16.7	1,094	5,616	20.6	2,490	10,054	22.3	3,885	73.2	24.9
AFDC children	1,851	15.1	222	3,002	11.0	4,361	4,390	9.7	528	−16.6	−16.4
Adults in AFDC families	1,895	15.5	478	3,328	12.2	769	4,458	9.9	1,047	−17.3	−23.0
Not receiving cash payments	1,753	14.3	1,261	4,736	17.4	2,641	9,754	21.6	3,148	95.7	−12.2
Aged	1,275	10.4	2,331	3,143	11.6	5,273	5,580	12.4	7,459	53.9	12.5
Blind	12	.1	1,094	19	.1	2,785	47	.1	8,416	38.6	170.5
Disabled	353	2.9	1,854	1,214	4.5	5,146	2,819	6.3	8,173	180.5	55.0
AFDC children	61	.5	152	153	.6	302	484	1.1	499	178.5	15.4
Adults in AFDC families	27	.2	144	87	.3	298	415	.9	643	442.9	57.0
Other title XIX	25	.2	463	120	.4	734	408	.9	1,045	479.1	−20.6
Total, categorically needy	8,941	73.0	495	19,273	70.8	1,032	32,968	73.1	1,649	29.7	17.1
Medically needy:											
Aged	1,742	14.2	2,672	4,303	15.8	5,260	6,453	14.3	8,315	30.3	9.4
Blind	20	.2	1,472	27	.1	3,132	50	.1	11,730	−12.8	180.2
Disabled	657	5.4	2,202	2,471	9.1	4,924	3,577	7.9	9,748	91.4	55.7
AFDC children	275	2.2	324	353	1.3	460	661	1.5	701	−15.3	−23.9
Adults in AFDC families	140	1.1	368	348	1.3	613	729	1.6	1,016	82.9	−2.9
Other title XIX	467	3.8	267	433	1.6	360	662	1.5	648	−50.2	−14.7
Total, medically needy	3,301	27.0	838	7,935	29.2	2,145	12,133	26.9	3,178	29.2	33.4
Grand total	12,242	100.0	556	27,204	100.0	1,238	45,101	100.0	1,945	29.6	23.0

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[1] Note: All total spending amounts are in millions. Fiscal year 1975 ends in June; fiscal years 1981 and 1987 end in September. Real percentage change calculations reflect an adjustment of the spending amounts by the Consumer Price Index for Medical Care [CPI–MC]. This adjustment must be viewed with some caution. The CPI series measures the inflation rate in out of pocket medical expenses. Medicaid's reimbursement policies may not reflect the year-to-year changes in these out of pocket expenses. An alternative approach would be to use the overall Consumer Price Index [CPI–U]. Dollar amounts in the table can be adjusted by the following factors to reflect CPI–U changes: fiscal year 1975, 2.17; fiscal year 1981, 1.26; fiscal year 1987, 1.0.

TABLE 15.—MEDICAID RECIPIENTS AND PAYMENTS BY BASIS OF ELIGIBILITY, PRELIMINARY ESTIMATES, FISCAL YEAR 1987

	Amount (in millions)	Percent of total	Recipients (in thousands) [1]	Percent of total [2]	Per capita payments
Age 65 and over	$16,133.1	35.8	3,260.0	14.1	4,948.3
Blind	309.3	.7	85.2	.4	3,629.3
Disabled	16,450.4	36.5	3,299.6	14.2	4,985.6
Dependent children under age 21	5,535.5	12.3	10,225.2	44.1	541.4
Adults in families with dependent children	5,602.6	12.4	5,623.3	24.3	996.3
Other title XIX	1,070.1	2.4	1,412.2	6.1	757.8
Total	45,101.0	100.0	23,183.3	100.0	1,945.3

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[1] Total is unduplicated count of recipients. A small number of recipients are in more than one category during the year.

[2] The percent of recipients is based upon the unduplicated count.

Notes: Totals may not add due to rounding. Based on data which include Puerto Rico and the Virgin Islands.

Source: HCFA.

TABLE 16.—MEDICAID PAYMENTS AND PER CAPITA PAYMENTS BY BASIS OF ELIGIBILITY, FISCAL YEARS 1975–87

	1975	1981	1982	1983	1984	1985	1986	1987	Percent change, 1975–87
Nominal dollars:									
Age 65 and over	$4,358	$9,926	$10,739	$11,954	$12,815	$14,096	$15,100	$16,133	270.1
Blind	93	154	173	183	219	249	277	309	232.3
Disabled	3,052	9,301	10,233	11,184	11,758	13,203	14,647	16,450	439.0
Dependent children	2,186	3,508	3,474	3,836	3,979	4,414	5,136	5,536	153.2
Adults in dependent families	2,062	3,763	4,093	4,487	4,420	4,746	4,877	5,603	171.7
Other title XIX	492	553	689	747	700	798	991	1,070	117.5
All recipients	12,242	27,204	29,400	32,391	33,891	37,508	41,027	45,101	268.4
Per capita payment (nominal dollars):									
Age 65 and over	1,205	2,948	3,315	3,545	3,958	4,605	4,809	4,948	310.6
Blind	850	1,787	2,047	2,378	2,766	3,106	3,403	3,629	326.9
Disabled	1,296	3,108	3,646	3,932	4,149	4,496	4,725	4,986	284.7
Dependent children	228	366	363	402	411	453	512	541	137.3
Adults in dependent families	455	725	764	802	789	860	864	996	118.9
Other title XIX	273	405	480	662	590	658	725	758	177.7
All recipients	556	1,238	1,361	1,503	1,569	1,720	1,822	1,945	249.8
Constant dollars:									
Age 65 and over	12,392	15,799	15,276	15,490	15,612	16,184	16,164	16,133	30.2
Blind	264	245	245	237	267	286	297	309	17.1
Disabled	8,679	14,804	14,556	14,492	14,324	15,158	15,679	16,450	89.5
Dependent children	6,217	5,584	4,941	4,970	4,847	5,068	5,498	5,536	−11.0
Adults in dependent families	5,863	5,989	5,822	5,814	5,384	5,449	5,220	5,603	−4.4
Other title XIX	1,398	879	979	968	853	917	1,061	1,070	−23.5

TABLE 16.—MEDICAID PAYMENTS AND PER CAPITA PAYMENTS BY BASIS OF ELIGIBILITY, FISCAL YEARS 1975–87—Continued

	1975	1981	1982	1983	1984	1985	1986	1987	Percent change, 1975–87
All recipients	34,813	43,301	41,821	41,972	41,287	43,062	43,918	45,101	29.6
Per capita payment (constant dollars):									
Age 65 and over	3,428	4,693	4,715	4,594	4,821	5,287	5,148	4,948	44.4
Blind	2,417	2,844	2,912	3,082	3,369	3,566	3,643	3,629	50.2
Disabled	3,686	4,947	5,187	5,095	5,055	5,162	5,058	4,986	35.3
Dependent children	648	583	517	521	500	520	548	541	−16.4
Adults in dependent families	1,294	1,155	1,087	1,039	962	987	925	996	−23.0
Other title XIX	777	645	683	858	719	755	776	758	−2.4
All recipients	1,582	1,970	1,936	1,947	1,911	1,975	1,950	1,945	23.0

Note: All total spending amounts are in millions. Fiscal year 1975 ends in June all other fiscal years end in September. Constant dollar amounts are calculated using the Consumer Price Index for Medical Care (CPI–MC). All Constant Dollar amounts are shown in 1987 dollars. The CPI series measures the inflation rate in out of pocket medical expenses. The services covered by Medicaid, and the program's reimbursement policies may not reflect these year to year changes in out of pocket expenses. An alternative approach would be to use the overall Consumer Price Index (CPI–U). Nominal Dollar amounts in the table can be adjusted by the following factors to reflect CPI–U Changes: 1975, 2.17; 1981, 1.26; 1982, 1.18; 1983, 1.14; 1984, 1.09; 1985, 1.05; 1986, 1.03; 1987, 1.0.

TABLE 17.—MEDICAID PAYMENTS BY SERVICE CATEGORY, FISCAL YEARS 1975, 1981, 1986, 1987

	1975		1981		1986		1987		Real percent change, 1975–87
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
Inpatient hospital	$3,779	30.9	$8,071	29.7	$11,481	28.0	$12,702	28.2	18.2
General	3,374	27.6	7,194	26.4	10,370	25.3	11,299	25.1	17.8
Mental	405	3.3	877	3.2	1,111	2.7	1,404	3.1	22.0
Skilled nursing facilities	2,434	19.9	4,035	14.8	5,656	13.8	5,971	13.2	−13.7
Intermediate care facilities	2,265	18.5	7,503	27.6	11,862	28.9	12,916	28.6	100.5
Facilities for the mentally retarded	380	3.1	2,996	11.0	5,081	12.4	5,606	12.4	418.2
Other	1,885	15.4	4,507	16.6	6,780	16.5	7,310	16.2	36.4
Physician	1,225	10.0	2,101	7.7	2,548	6.2	2,779	6.2	−20.2
Dental	339	2.8	543	2.0	532	1.3	541	1.2	−43.8
Other practitioner	127	1.0	228	.8	252	.6	265	.6	−26.7
Outpatient hospital	373	3.0	1,409	5.2	1,983	4.8	2,226	4.9	110.0
Clinic	389	3.2	373	1.4	810	2.0	955	2.1	−13.6
Lab and X ray	126	1.0	147	.5	424	1.0	469	1.0	31.2
Home health	70	.6	428	1.6	1,352	3.3	1,698	3.8	752.9
Prescribed drugs	815	6.7	1,535	5.6	2,692	6.6	2,999	6.6	29.4
Family planning	67	.5	140	.5	226	.5	227	.5	19.0
Early and periodic screening	(1)	(1)	67	.2	102	.2	115	.3	(1)
Rural health clinics	(1)	(1)	4	0	10	0	14	0	(1)
Other	233	1.9	620	2.3	1,098	2.7	1,220	2.7	83.8
Total	12,242	100.0	27,204	100.0	41,027	100.0	45,101	100.0	29.6

[1] 1975 data not available.

Note: Fiscal year 1975 ends in September, all other fiscal years end in September. Real percentage change calculations reflect an adjustment of the spending amounts using the Consumer Price Index for Medical Care (CPI–MC). This adjustment must be viewed with some caution. The CPI series measures the inflation rate in out of pocket expenses. Medicaid's reimbursement policies and service mix may not reflect the year to year changes in these out of pocket expenses. An alternative approach would be to use the overall Consumer Price Index for all Urban Consumers (CPI–U). Nominal dollar amounts in the table can be adjusted by the factors found in the table 16 footnote to reflect the CPI–U changes.

TABLE 18.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT BY BASIS OF ELIGIBILITY, BY STATE, FISCAL YEAR 1987

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
United States	1,406	2,362	2,821	3,955	539	1,087
All jurisdictions	1,374	2,361	2,814	3,885	528	1,047
Alabama	855	903	1,281	1,609	279	736
Alaska	2,749	7,682	3,227	7,740	923	2,027
Arkansas	1,432	1,455	2,291	2,963	527	748
California	1,061	974	2,133	2,771	407	964
Colorado	2,166	4,026	14,030	6,313	428	777
Connecticut	994	1,754	3,231	3,324	564	1,142
Delaware	1,549	3,166	3,235	4,642	564	1,059
District of Columbia	2,733	9,160	4,271	7,725	757	2,207
Florida	1,289	1,716	1,912	3,034	397	878
Georgia	1,475	1,832	1,989	3,080	463	1,253
Hawaii	976	2,179	2,493	3,087	437	992
Idaho	833	1,474	1,122	2,517	474	1,007
Illinois	1,284	2,709	3,721	4,876	504	959
Indiana	1,559	3,432	3,986	6,361	648	1,454
Iowa	1,347	2,170	1,719	4,493	549	1,134
Kansas	1,262	1,003	2,264	4,031	372	736
Kentucky	1,163	1,324	1,979	2,692	418	880
Louisiana	1,368	1,767	2,459	3,898	493	1,124
Maine	1,447	2,505	2,163	3,993	504	1,063
Maryland	1,486	2,710	2,623	4,073	756	1,325
Massachusetts	2,191	3,023	2,597	6,127	756	1,495
Michigan	1,109	2,203	2,747	3,901	483	1,124
Minnesota	1,835	5,515	7,608	10,500	476	1,154
Mississippi	827	1,126	1,494	1,671	324	764
Missouri	672	1,098	1,556	1,757	499	765
Montana	1,353	3,704	3,855	4,477	476	1,081
Nebraska	1,434	3,342	3,308	4,184	596	1,195
Nevada	1,800	1,482	3,402	5,597	607	1,321
New Hampshire	1,888	1,756	7,608	6,651	433	732
New Jersey	1,490	3,338	2,997	4,843	512	1,273
New Mexico	1,427	1,661	3,856	3,419	566	1,259
New York	2,444	7,011	1,2121	7,057	790	1,481
North Carolina	1,333	2,228	3,246	4,025	495	937
North Dakota	2,772	4,980	5,117	11,242	693	1,304
Ohio	1,459	3,557	3,526	5,146	853	1,358

TABLE 18.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT BY BASIS OF ELIGIBILITY, BY STATE, FISCAL YEAR 1987—Continued

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
Oklahoma	1,074	1,567	1,516	2,132	503	986
Oregon	851	2,573	2,360	2,515	376	867
Pennsylvania	1,190	2,722	1,617	3,332	500	913
Rhode Island	1,384	3,299	3,364	4,130	423	901
South Carolina	1,085	1,339	1,571	2,432	3,41	748
South Dakota	1,969	2,815	2,926	5,816	603	1,096
Tennessee	1,385	1,336	2,294	2,565	679	1,261
Texas	1,364	1,990	2,746	3,804	414	1,077
Utah	1,025	1,138	3,958	2,872	490	1,286
Vermont	1,574	2,305	2,115	4,930	464	971
Virginia	1,427	2,490	2,512	3,735	396	965
Washington	1,789	12,744	16,258	33,767	603	1,167
West Virginia	771	1,583	1,851	1,899	307	669
Wisconsin	1,103	1,515	4,606	3,641	404	567
Wyoming	1,234	2,376	850	3,320	619	1,229
Puerto Rico	93	....	297	103	104	77
Virgin Islands	269	515	258	657	156	379

Source: HCFA, OSDM, Division of Medicaid Statistics.

TABLE 19.—OPTIONAL MEDICAID SERVICES AND NUMBER OF STATES [1] OFFERING EACH SERVICE AS OF OCTOBER, 1987

Service	States offering service to categorically needy only	States offering service to both categorically and medically needy	Total
Podiatrists' services	10	32	42
Optometrists' services	15	36	51
Chiropractors' services	8	20	28
Other practitioners' services	9	26	35
Private duty nursing	5	15	20
Clinic services	16	36	52
Dental services	14	35	49
Physical therapy	8	27	35
Occupational therapy	4	21	25
Speech, hearing and language disorder	7	26	33
Prescribed drugs	14	37	51
Dentures	10	27	37
Prosthetic devices	13	36	49
Eyeglasses	13	34	47
Diagnostic services	4	17	21

TABLE 19.—OPTIONAL MEDICAID SERVICES AND NUMBER OF STATES [1] OFFERING EACH SERVICE AS OF OCTOBER, 1987—Continued

Service	States offering service to categorically needy only	States offering service to both categorically and medically needy	Total
Screening services	4	14	18
Preventive services	4	17	21
Rehabilitative services	9	28	37
Services for age 65 or older in mental institution:			
A. Inpatient hospital services	18	24	42
B. SNF services	10	14	24
C. ICF services	11	18	29
Intermediate care facility services	21	29	50
ICF for mentally retarded	18	29	48
Inpatient psychiatric services for under age 22	10	27	37
Christian science nurses	1	4	5
Christian science sanitoria	4	12	16
SNF for under age 21	17	30	47
Emergency hospital services	14	30	44
Personal care services	8	18	26
Transportation services	12	33	45
Case management services	1	14	15
Hospice services	0	6	6

[1] Includes the territories. Thus maximum number is 53.

Source: Department of Health and Human Services.

TABLE 20.—OBRA-86/87 SUMMARY STATUS COVERAGE OPTIONS FOR PREGNANT WOMEN AND CHILDREN AS OF JULY 1988

	Adopted/percent poverty	Coverage to age			Dropped assets test	Continuous eligibility	Presumptive eligibility	Effective date
		1	≥2	≥5				
Alabama	100	X			X	X	X	7/88
Alaska	100		X		X	X		[1] 1/89
Arizona	100			X	X	X		1/88
Arkansas	100			X	X	X	X	4/87
California								
Colorado								
Connecticut	185	X			X	X		4/88
Delaware	100		X		X	X		1/88
District of Columbia	100		X		X	X		4/87
Florida	100			X	X	X	X	10/87
Georgia	100		X		X	X		[1] 1/89
Hawaii	100	X			X	X	X	[1] 1/89
Idaho	67	X			X	(3)	X	[1] 1/89
Illinois	100	X						7/88

TABLE 20.—OBRA–86/87 SUMMARY STATUS COVERAGE OPTIONS FOR PREGNANT WOMEN AND CHILDREN AS OF JULY 1988—Continued

	Adopted/ percent poverty	Coverage to age			Dropped assets test	Continuous eligibility	Presumptive eligibility	Effective date
		1	≥2	≥5				
Indiana	50	X			X	X	X	7/88
Iowa	150		X					[1] 1/89
Kansas	100		X		X			7/88
Kentucky	125		X			X		10/87
Louisiana	100			X	X	X	X	[1] 1/89
Maine	185			X	X		X	[1] 10/88
Maryland	100		X		X	X	X	7/87
Massachusetts	185			X	X	X	X	7/87
Michigan	185		X		X	X		1/88
Minnesota	185	X			X	X		7/88
Mississippi	185		X			X		10/87
Missouri	100		X			X		1/88
Montana								
Nebraska	100		X		X	X	X	7/88
Nevada								
New Hampshire								
New Jersey	100		X		X	X	X	7/87
New Mexico	100		X			X	X	1/88
New York							X	(3)
North Carolina	100		X		X	X	X	10/87
North Dakota								
Ohio	100	X			X	X		[1] 1/89
Oklahoma	100		X		X	X		1/88
Oregon	[2] 85/100		X		X	X		11/87
Pennsylvania	100		X		X		X	4/88
Rhode Island	100		X		X	X		4/87
South Carolina	100	X			X	X		10/87
South Dakota	100	X			X	X		7/88
Tennessee	100			X	X	X		7/87
Texas	100		X			X	X	[1] 9/88
Utah	100		X		X	X	X	[1] 1/89
Vermont	185			X		X		10/87
Virginia	100	X			X	X		7/88
Washington	90		X			X		7/87
West Virginia	150			X	X	X		7/87
Wisconsin							X	4/88
Wyoming	100	X			X	X		[1] 10/88
Total	43	12	22	9	34	37	19	

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[1] Projected implementation date.

[2] This state will increase its income threshold to 100 percent of poverty during 1988.

[3] Undecided.

Source: National Governors' Association, 1988.

FEDERAL HOUSING ASSISTANCE [20]

A number of Federal programs administered by the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA) address the housing needs of lower income households. Housing assistance has never been provided as an entitlement to all households that qualify for aid. Instead, each year the Congress has appropriated funds for a number of new commitments. Because these commitments generally run from 5 to 50 years, the appropriation is actually spent gradually, over many years. These additional commitments have expanded the pool of available aid, thus increasing the total number of households that can be served. They have also contributed to growth in Federal outlays in the past and have committed the Government to continuing expenditures for many years to come.

The number of additional commitments funded annually has been cut back in recent years, and the nature and mix of assistance programs has changed. These shifts have, in turn, affected the distribution of available aid. This subsection describes recent trends in the number and mix of new commitments, as well as trends in expenditures.

TRENDS IN FEDERAL HOUSING ASSISTANCE

The Federal Government provides housing aid to lower-income housholds in the form of rental subsidies and mortgage-interest subsidies. Over the past decade, both the number of households receiving aid and total federal expenditures have increased each year, but the growth in outstanding commitments has slowed significantly during the 1980s.

Types of housing assistance

A number of different housing assistance programs have evolved in response to changing housing policy objectives. While the primary purpose of housing assistance has always been to improve housing quality and to reduce housing costs for lower-income households, other goals have included promoting residential construction, expanding housing opportunities for disadvantaged groups and groups with special housing needs, promoting neighborhood preservation and revitalization, and increasing homeownership.

New housing programs have been developed over time because of shifting priorities among these objectives—as housing-related problems changed—and because of the relatively high federal costs associated with some approaches. Other programs have become inactive in that the Congress stopped appropriating funds for new assistance commitments through them. Because housing programs traditionally have involved multiyear contractual obligations, however, these so-called inactive programs continue to play an important role today by serving a large number of households through commitments for which funds were appropriated some time ago.

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[20] This discussion draws directly from a CBO Study entitled "Current Housing Problems and Possible Federal Responses," December 1988.

Rental assistance.—Most Federal housing aid is now targeted to very-low-income renters through the rental assistance programs administered by HUD and the FmHA.[21] Rental assistance is provided through two basic approaches: (1) project-based aid, which is typically tied to projects specifically produced for lower-income households through new construction or substantial rehabilitation; and (2) household-based subsidies, which permit renters to choose standard housing units in the existing private housing stock.

Rental assistance programs generally reduce tenants' rent payments to a fixed percentage—currently 30 percent—of their income after certain deductions, with the Government paying the remaining portion of the dwellings' costs.

Almost all project-based aid is provided through production-oriented programs, which include the public housing program, the section 8 new construction and substantial rehabilitation program, and the section 236 mortgage-interest-subsidy program—all administered by HUD—and the section 515 mortgage-interest-subsidy program administered by the FmHA.[22] New commitments are being funded through three of the four—the public housing program, the section 8 new construction program, and the section 515 program. Under section 8, however, new aid is being provided only for elderly and handicapped households through the so-called section 202/8 program. In addition, a small amount of assistance is funded annually under two recently authorized HUD programs—the rental housing development grants (HoDAG) and the rental rehabilitation block grant programs.[23] These programs distribute funds through a national competition and by formula, respectively, to units of local government that meet eligibility criteria established by statute.

Some project-based aid is also provided through several components of HUD's section 8 existing-housing program, which tie subsidies to specific units in the existing-housing stock, many of which have received other forms of aid or mortgage insurance through HUD. These components—all of which are currently active—include the section 8 loan management set-aside (LMSA) and property disposition (PD) components, which are designed to improve cash flows in selected financially troubled projects that are or were insured by the Federal Housing Administration (FHA); the section 8 conversion assistance component, which subsidizes units that were previously aided through other programs; and the section 8 moderate rehabilitation program, which provides subsidies tied to units that are brought up to standard by the owner.

Household-based subsidies are provided through two other components of the section 8 existing-housing program—section 8 certificates and vouchers. These programs, both of which are currently active, tie aid to households, who choose standard units in the private housing stock. Certificate holders must occupy units whose rents at initial occupancy are within guidelines—the so-called fair market rents (FMRs)—established by HUD. Voucher recipients, however, are allowed to occupy units with rents above the HUD guidelines, provided that they pay the difference.

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[21] For more detailed description of the various types of programs, see Congressional Budget Office, *Federal Housing Assistance: Alternative Approaches* (May 1982); or National Association of Homebuilders, *Low- and Moderate-Income Housing: Progress, Problems and Prospects* (Washington, D.C.: NAHB, 1986).

[22] A small number of renters continue to receive project-based subsidies through the now inactive section 221(d)(3) below-market interest rate (BMIR) and rent supplement programs.

[23] The Housing and Community Development Act of 1987 terminates the HoDAG program at the end of fiscal year 1989.

Homeowners' assistance.—Each year, the Federal Government also assists some lower- and moderate-income households in becoming homeowners by making long-term commitments to reduce their mortgage interest.[24] Most of this aid has been provided through the section 502 program administered by the FmHA, which itself supplies mortgage loans at low interest rates roughly equal to the long-term Government borrowing rates. Many homebuyers, however, receive much deeper subsidies through the interest-credit component of this program, which reduces their effective interest rate to as low as 1 percent. A number of homebuyers have received aid through the section 235 program administered by HUD, which provides interest subsidies for mortgages financed by private lenders. New commitments are now being made only through the section 502 program, but a small number of homeowners continue to receive aid from prior commitments made under the section 235 program.[25] Both programs generally reduce mortgage payments, property taxes, and insurance costs to a fixed percentage of income, ranging from 20 percent for the FmHA program to 28 percent for the latest commitments made under the HUD program. Households with relatively low incomes would have to pay larger shares, however, since mortgage payments must cover a minimum interest rate—currently 1 percent and 4 percent for the FmHA and HUD programs, respectively.

Trends in commitments for housing assistance

Although the Federal Government has been subsidizing the shelter costs of lower-income households since 1937, more than half of all currently outstanding commitments were funded over the past 12 years. Between 1977 and 1988, about 2.2 million net new commitments were funded to aid lower income renters. Another 0.8 million new commitments were provided in the form of mortgage assistance to lower- and moderate-income homebuyers. Between 1977 and 1983, the number of net new rental commitments funded each year declined steadily, however, from 375,000 to 78,000. Trends have been somewhat erratic since 1983. Over the 12-year period, commitments for new homebuyers generally decreased, ranging from 140,000 in 1980 to about 24,000 in 1987 (see table 21).

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[24] In addition, a small number of very-low-income homeowners receive grants or loans each year from the FmHA for housing repairs.

[25] The Housing and Community Development Act of 1987 terminates the section 235 program at the end of fiscal year 1989.

TABLE 21.—NET NEW COMMITMENTS FOR RENTERS AND NEW COMMITMENTS FOR HOMEBUYERS, 1977–88

Fiscal year	Net new commitments for renters			New commitments for homebuyers
	Existing housing	New construction	Total	
1977	127,581	247,667	375,248	112,234
1978	126,472	214,503	340,975	112,214
1979	102,669	231,156	333,825	107,871
1980	58,402	155,001	213,403	140,564
1981	83,520	94,914	178,434	74,636
1982	38,372	47,618	85,990	66,711
1983	54,071	23,861	77,932	54,550
1984	78,726	36,719	115,445	44,409
1985	85,741	42,667	128,408	45,387
1986	85,476	34,375	119,851	25,479
1987	72,788	37,247	110,035	24,132
1988 (estimate)	73,199	34,523	107,722	26,600

Source: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

Note: Net new commitments for renters represent net additions to the available pool of rental aid and are defined as the total number of commitments for which new funds are appropriated in any year. To avoid double-counting, these numbers are adjusted for the number of commitments for which such funds are deobligated or canceled that year; the number of commitments for units converted from one type of assistance to another; in the FmHA Section 515 program, the number of units that receive more than one subsidy; and, starting in 1985, the number of commitments specifically designed to replace those lost because private owners of assisted housing opt out of the programs or because public housing units are demolished.

New commitments for homebuyers are defined as the total number of new loans that the FmHA may make (or that HUD may subsidize) each year based on the maximum lending authority set by the Congress. This measure of program activity is meant to indicate how many new homebuyers can be helped each year and is therefore not adjusted to account for homeowners who leave the programs in any year because of mortgage repayments, prepayments, or foreclosures. Thus, it does not represent net additions to the total number of assisted homeowners and therefore cannot be added to net new commitments for renters.

The production-oriented approach in rental programs has been sharply curtailed in recent years in favor of the less costly section 8 existing-housing and voucher programs. Between 1977 and 1982, commitments through programs for new construction and substantial rehabilitation ranged annually from 53 percent to 73 percent of the total; since then, however, they have made up one-third or less of all additional rental commitments.

The relative emphasis on new construction compared with rental rehabilitation and repair programs has fluctuated over the years. Most recently, the Congress has shifted funding away from new construction in favor of rehabilitation. The 1987, 1988, and 1989 appropriations included more than twice as much funding for modernization of public housing projects compared with 1986, while the 1989 funding level for additional newly constructed units is roughly the same as the 1986 level. In 1987, the rental rehabilitation program received twice the amount that was provided under HoDAG, a new construction program, while in 1988 and 1989 HoDAG funding was virtually phased out.

The total number of households receiving assistance has increased substantially, from 3.2 million at the beginning of fiscal year 1977 to 5.4 million at the beginning of fiscal year 1988—a 69 percent increase (see Table 22). This increase results largely from net new commitments over the past 12 years, but also from commitments made before 1977 that have been processed during this period. The number of households receiving rental subsidies increased from 2.1 million to 4.3 million, while the number of homeowners receiving assistance in a given year remained virtually unchanged at between 1.1 million and 1.2 million. The latter pattern reflects commitments for newly assisted households being offset by loan repayments, prepayments, and foreclosures among previously assisted households. Thus, the proportion of all assisted households that receives homeownership assistance has declined from 34 percent at the beginning of 1977 to less than 20 percent at the beginning of 1988. Among rental assistance programs, the shift away from production-oriented programs toward existing housing is reflected in the increasing proportion of renters receiving aid through the latter approach, from 13 percent at the beginning of fiscal year 1977 to 34 percent at the begining of 1988, with the proportion of renters receiving household-based subsidies increasing from 8 percent to 22 percent.

TABLE 22.—TOTAL HOUSEHOLDS RECEIVING ASSISTANCE BY TYPE OF SUBSIDY, 1977–88

[Households in thousands]

	Assisted renters					Total assisted homeowners	Total assisted homeowners and renters
	Existing housing			New construction	Total assisted renters		
	Household based	Project based	Subtotal				
Beginning of fiscal year:							
1977	162	105	268	1,825	2,092	1,071	3,164
1978	297	126	423	1,977	2,400	1,082	3,482
1979	427	175	602	2,052	2,654	1,095	3,749
1980	521	185	707	2,189	2,895	1,112	4,007
1981	599	221	820	2,379	3,012	1,127	4,139
1982	651	194	844	2,559	3,210	1,201	4,411
1983	691	265	955	2,702	3,443	1,226	4,668
1984	728	357	1,086	2,836	3,700	1,219	4,920
1985	749	431	1,180	2,931	3,887	1,193	5,080
1986	797	456	1,253	2,986	3,998	1,176	5,174
1987	893	473	1,366	3,047	4,175	1,126	5,301
1988	956	490	1,446	3,085	4,296	1,059	5,354

Source: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

Note: Figures for total assisted renters have been adjusted since 1980 to avoid double-counting households receiving more than one subsidy.

BUDGET AUTHORITY AND OUTLAYS FOR HOUSING ASSISTANCE

Funding for most additional commitments for housing assistance is provided each year through appropriations of long-term budget authority for subsidies to households and through appropriations of lending authority for direct loans to homebuyers and developers of rental housing.

Annual appropriations of new budget authority for housing assistance have been cut dramatically over the past decade. These cuts reflect four underlying factors: the previously mentioned reduction in the number of newly assisted households; the shift toward cheaper existing-housing assistance; a systematic reduction in the average term of new commitments from more than 24 years in 1977 to less than 12 years in 1988; and, since 1987, the change in the method for financing the construction and modernization of public housing.[26] For HUD's programs alone, appropriations of budget authority declined (in 1987 dollars) from a high of $53 billion in 1978 to $9 billion in 1988 (see table 23). Similarly, new lending authority for FmHA's direct loan programs decreased (in 1987 dollars) from a high of $5.7 billion in 1979 to $1.7 billion in 1988.

TABLE 23.—NET BUDGET AUTHORITY APPROPRIATED FOR HOUSING AID, 1977–88

[In millions of current and 1987 dollars]

Fiscal year	Net budget authority	
	Current dollars	1987 dollars
1977	28,579	50,328
1978	32,169	52,944
1979	25,123	38,041
1980	27,435	38,193
1981	26,022	32,943
1982	14,766	17,416
1983	10,198	11,549
1984	11,631	12,690
1985	11,334	11,973
1986	10,032	10,307
1987	8,994	8,994
1988 (estimate)	9,075	8,791

Source: Congressional Budget Office, based on data provided by the Department of Housing and Urban Development.

Note: All figures are net of funding recissions. Totals include funds appropriated for public housing operating subsidies. Excludes programs administered by the Farmers Home Administration.

On the other hand, with the continuing increase in the number of households served, total outlays (expenditures on behalf of all households actually receiving aid in a given year) for all housing assistance programs combined have risen steadily (in 1987 dollars), from $5.7 billion in fiscal year 1977 to $15.3 billion in fiscal year 1987, an increase of almost 170 percent (see table 24). Moreover, despite recent measures to contain costs, and the increase in house-

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[26] Before 1987, new commitments for the construction and modernization of public housing were financed over periods ranging from 20 to 40 years, with the appropriations for budget authority reflecting both the principal and interest payments for this debt. Starting in 1987, these activities are financed with up-front grants, which reduces their budget authority requirements by between 51 percent and 67 percent.

hold contributions from 25 percent to 30 percent of adjusted income, average Federal outlays per unit for all programs combined have generally continued to rise in real terms, from around $1,700 in 1977 to around $2,900 in 1987—an increase of almost 70 percent (see table 25).[27] Several factors have contributed to this growth. First, the number of households that occupy units completed under the section 8 new construction program has risen. These recently constructed units require larger subsidies compared with the older units that were built some time ago under the mortgage-interest subsidy programs and the public housing program. Second, the share of households receiving less costly homeownership assistance has decreased. Third, housing aid is being targeted toward a poorer segment of the population, requiring larger subsidies per assisted household. Fourth, rents in assisted housing have probably risen faster than the income of assisted households, causing subsidies to rise faster than the inflation index used here—the gross national product (GNP) implicit price deflator.[28]

TABLE 24.—OUTLAYS FOR HOUSING AID, 1977–88

[In millions of current and 1987 dollars]

Fiscal year	Outlays	
	Current dollars	1987 dollars
1977	3,248	5,720
1978	3,914	6,442
1979	4,708	7,128
1980	5,971	8,312
1981	7,900	10,001
1982	9,437	11,131
1983	11,366	12,871
1984	13,249	14,456
1985	27,578	29,133
1986	14,870	15,278
1987	15,278	15,278

Source: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

Note: The bulge in outlays in 1985 is caused by a change in the method of financing public housing, which generated close to $14 billion in one-time expenditures. This amount paid off—all at once—the capital cost of public housing construction and modernization activities undertaken since 1974, which otherwise would have been paid off over periods of up to 40 years. Because of this one-time expenditure, however, future outlays for public housing will be lower than they would have been otherwise.

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[27] The change in the method for financing the construction and modernization of public housing caused a large one-time expenditure in 1985, when most of the outstanding debt incurred since 1974 for construction and modernization was paid off (see table 24). Without that bulge in expenditures, average outlays per unit in 1985 would have been about $2,800 in 1987 dollars.

[28] For example, between 1980 and 1986, the GNP implicit price deflator increased 33 percent. Over the same period, median family income of renters and the Consumer Price Index for residential rents increased by 36 percent and 46 percent, respectively, but the maximum rents allowed for section 8 existing-housing certificates—the so-called fair market rents—rose around 57 percent.

TABLE 25.—PER UNIT OUTLAYS FOR HOUSING AID, 1977–88

[In current and 1987 dollars]

Fiscal year	Per unit outlays	
	Current dollars	1987 dollars
1977	980	1,720
1978	1,080	1,780
1979	1,210	1,840
1980	1,470	2,040
1981	1,850	2,340
1982	2,080	2,450
1983	2,370	2,680
1984	2,650	2,890
1985	5,380	5,680
1986	2,840	2,920
1987	2,870	2,870

Source: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

Note: The peak in outlays per unit in 1985 of $5,700 is attributable to the bulge in 1985 expenditures associated with the change in the method for financing public housing. Without this change, outlays per unit would have amounted to around $2,800 in 1987 dollars.

SCHOOL LUNCH AND BREAKFAST PROGRAMS

The National School Lunch Program (NSLP) and the School Breakfast Program (SBP) provide Federal cash and commodity support to participating public and private schools and nonprofit residential institutions that serve meals to children. Each program has a three-tiered reimbursement system that allows children from households with incomes at or below 130 percent of the poverty line to receive free meals, permits children with incomes between 130 percent and 185 percent of poverty to receive meals at a reduced price, and provides a small subsidy for the meals of children with incomes above 185 percent of poverty.[29] Children in AFDC families are automatically eligible to receive free breakfast and lunch. An estimated 49.2 percent of households receiving AFDC also receive free or reduced-price meals.[30]

The NSLP provides subsidized lunches to children in most schools. During fiscal year 1987, the average daily participation was 24 million students, at a total Federal program cost of $3.47 billion (see table 26). In 1986, approximately 87 percent of all elementary and secondary school students were estimated to be in schools that participated in the NSLP; approximately 59 percent of the students in those schools participated in the program. Roughly half of the meals subsidized by the NSLP go to children from lower income families although nearly 90 percent of Federal funding is used for these children's lunches. In fiscal year 1987, 42 percent of the children receiving NSLP lunches received free lunches, 7 percent received reduced-price lunches, and the remaining 51 percent paid full price for their meals.

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[29] For example, in the 1988–1989 school year, the NSLP schools receive Federal reimbursements of 146.25, 106.25, and 14.0 cents, respectively, for each lunch served to children from these three income categories. An additional 12.25 cents worth of commodity assistance is mandated for all lunches, regardless of the family income of the recipient. The corresponding levels of Federal reimbursement in the SBP are 79.25, 49.25 and 14.0 cents. Rates are 15 cents higher for free and reduced-price breakfasts served in schools meeting certain "severe need" criteria. Commodity assistance valued at 3 cents per breakfast is offered if USDA supplies are available.

[30] Other programs that provide nutritional assistance to children include the Child Care Food Program, the Summer Food Service Program, and the Special Milk Program.

The SBP serves far fewer students than does the NSLP. In fiscal year 1987, the program had an average daily participation of 3.6 million students, with total Federal program costs of $468 million (see table 27). In 1986, the program was estimated to be available in about 35 percent of all schools, and to serve about 22 percent of the participating schools' enrollment. The SBP also differs from the NSLP in that most of the schools that offer the program are in low-income areas, and the children who participate in the program are predominantly from low- and moderate-income families. In fiscal year 1987, almost 90 percent of the SBP participants received free or reduced-price breakfasts.

TABLE 26.—THE NATIONAL SCHOOL LUNCH PROGRAM: PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–88

[Dollars in millions]

Fiscal year	Participation 9 month average (in millions) [1]				Federal costs [4]
	Free meals	Reduced-price meals	Full-price meals [2]	Total [3]	
1977	10.5	1.3	14.5	26.3	$2,111.1
1978	10.3	1.5	14.9	26.7	2,293.6
1979	10.0	1.7	15.3	27.0	2,659.0
1980	10.0	1.9	14.7	26.6	3,051.9
1981	10.6	1.9	13.3	25.8	2,959.5
1982	9.8	1.6	11.5	22.9	2,611.5
1983	10.3	1.5	11.2	23.0	2,835.5
1984	10.3	1.5	11.5	23.4	2,953.5
1985	9.9	1.6	12.1	23.6	3,045.1
1986	10.0	1.6	12.2	23.7	3,172.6
1987	10.0	1.6	12.4	24.0	3,347.3
1988 (prelim. est.)	9.8	1.6	12.8	24.2	3,446.5

[1] In order to reflect participation for the actual school year (September through May), these estimates are based on 9 month averages of October through May, plus September, rather than averages of the 12 months of the fiscal year (October through September).

[2] The Federal Government provides a small subsidy for these meals.

[3] Details may not sum to total because of rounding.

[4] Includes cash payments and entitlement commodities, does not include the value of bonus commodities.

Sources: U.S. Department of Agriculture, Food and Nutrition Service, "Annual Historical Review of FNS Programs: Fiscal Year 1986" and U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update for August 1987." Appendix (November 1987).

TABLE 27.—THE SCHOOL BREAKFAST PROGRAM: PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–88

[Dollars in millions]

Fiscal year	Participation 9 month average (in millions) [1]				Federal costs
	Free meals	Reduced-price meals	Full-price meals [2]	Total [3]	
1977	2.0	0.1	0.4	2.5	$148.6
1978	2.2	.2	.4	2.8	181.2
1979	2.6	.2	.5	3.3	231.0
1980	2.8	.3	.6	3.6	287.8
1981	3.1	.3	.5	3.8	331.7
1982	2.8	.2	.4	3.3	317.3
1983	2.9	.2	.3	3.4	343.8
1984	2.9	.2	.4	3.4	364.0
1985	2.9	.2	.4	3.4	385.3
1986	2.9	.2	.4	3.5	412.0
1987	3.0	.2	.4	3.6	468.3
1988 (prelim. est.)	3.0	.2	.5	3.7	483.4

[1] In order to reflect participation for the actual school year (September through May), these estimates are based on 9 month averages of October through May, plus September, rather than averages of the 12 months of the fiscal year (October through September).

[2] The Federal Government provides a small subsidy for these meals.

[3] Details may not sum to totals due to rounding.

Sources: U.S. Department of Agriculture, Food and Nutrition Service, "Annual Historical Review of FNS Programs: Fiscal Year 1986," and U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update for August 1987." Appendix (November 1987).

THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

The Special Supplemental Food Program for Women, Infants, and Children (WIC) provides food assistance and nutritional screening to low-income pregnant and postpartum women and their infants, as well as to low-income children up to age 5. Participants in the program must have incomes at or below 185 percent of poverty, and must be nutritionally at risk.[31] Under the Child Nutrition Act of 1966, nutritional risk is defined as detectable abnormal nutritional conditions; documented nutritionally-related medical conditions; health-imparing dietary deficiencies; or conditions that predispose people to inadequate nutrition or nutritionally related medical problems.

WIC, which is federally funded, but administered by State and local agencies, does not serve all who are eligible. In fiscal year 1988, Federal costs totaled $1.8 billion and the program served approximately 3.4 million women, infants, and children (see table 28). In July of 1987, the USDA released a report of the WIC eligibility study ("Estimation of Eligibility for the WIC Program") which found that in 1984, an estimated 9.6 million persons were income-eligible for the WIC program, and 7.5 million of those were estimated to be at nutritional risk. Thus, 7.5 million persons were fully eligible for the WIC program at that time. Another USDA study released in April of 1986 indicated that in 1985 about two-thirds of WIC participants had incomes below the poverty level.

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[31] Although States are free to set their upper income-eligibility limits between 100 percent and 185 percent of poverty, the majority (82 percent in 1985) use income cut-off levels of between 151 and 185 percent of poverty.

TABLE 28.—THE SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC): PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–88

[Dollars in thousands]

Fiscal year	Participation (in thousands)				Federal costs [2]
	Women	Infants	Children	Total [1]	
1977	165.0	213.0	471.0	848.0	$255.9
1978	240.0	308.0	633.0	1,181.0	379.6
1979	312.0	389.0	782.0	1,483.0	525.4
1980	411.0	507.0	995.0	1,913.0	724.7
1981	446.0	585.0	1,088.0	2,119.0	874.4
1982	478.0	623.0	1,088.0	2,189.0	948.2
1983	542.0	730.0	1,265.0	2,537.0	1,123.1
1984	657.0	825.0	1,563.0	3,045.0	1,386.3
1985	665.0	874.0	1,600.0	3,138.0	1,488.9
1986	712.0	945.0	1,655.0	3,312.0	1,580.5
1987	748.0	1,018.0	1,660.0	3,429.0	1,663.6
1988 (preliminary est.)	820.0	1,096.0	1,681.0	3,597.0	1,802.4

[1] Details may not sum to totals due to rounding.

[2] Includes funding for WIC studies and surveys.

Sources: U.S. Department of Agriculture, Food and Nutrition Service, "Annual Historical Review of FNS Programs: Fiscal Year 1986," and U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update for August 1987" (Appendix), November 1987.

JOB TRAINING PARTNERSHIP ACT

Title II–A of the Job Training Partnership Act of 1982 (JTPA) provides block grants to States to fund training and related services for economically disadvantaged youths and adults. These activities are administered by States and localities, which select participants and design projects within Federal guidelines. (Other titles of the act authorize the Job Corps and summer programs for young people; federally administered programs for Native Americans, migrant and seasonal farm workers, and military veterans; and a program for dislocated workers.)

The aid is intended to increase participants' future employment and earnings and reduce their dependence on welfare. Services authorized under this title include institutional and on-the-job training, job search assistance, counseling, and other work-related assistance. At least 90 percent of the participants must be economically disadvantaged, which is defined as being a member of a family whose total income for the 6-month period prior to application (exclusive of unemployment compensation, child support payments, and welfare payments) does not exceed the higher of the poverty line or 70 percent of the Bureau of Labor Statistics' lower living standard. Members of families receiving Aid to Families With Dependent Children (AFDC) or other cash welfare payments or food stamps are also defined as economically disadvantaged.

The act requires program operators to serve AFDC recipients at least in proportion to their share in the eligible population. Since the program was implemented in 1983, about one-fifth of the participants in activities authorized by Title II-A were AFDC recipients at the time that they enrolled—21 percent, for example, in program year 1985 (July 1985-June 1986) and 23 percent in program year 1986 (July 1986-June 1987).

In fiscal year 1989, almost $1.8 billion is expected to be spent for JTPA II-A grants, providing training and other services to about 1.3 million participants. Annual outlays have ranged between $1.5 billion and $2.3 billion since JTPA was enacted. Data on participation (new enrollees) and budget authority for recent fiscal years are provided in table 29 below. Under its predecessor, the Comprehensive Employment and Training Act (CETA), grants included funds for public service employment as well as training and were considerably larger.

TABLE 29.—TITLE II-A OF THE JOB TRAINING PARTNERSHIP ACT: NEW ENROLLEES AND FEDERAL APPROPRIATIONS, FISCAL YEARS 1984-89

Fiscal year [1]	New enrollees	Budget authority (millions)
1984	708,000	$1,886.2
1985	752,900	1,886.2
1986	786,400	1,783.1
1987	[2] 625,000	1,840.0
1988	NA	1,809.5
1989	NA	1,787.8

[1] Funds are appropriated on a fiscal year basis but spent on a program year basis, with program years running from July 1 to June 30. For example, fiscal year 1984 appropriations were spent during program year 1984, which ran from July 1, 1984 to June 30, 1985.

[2] Represents enrollees during the first three quarters of program year 1987 (July 1, 1987 to March 31, 1988). Fourth quarter data not yet available.

NA—Not available.

Source: Employment and Training Administration, U.S. Department of Labor, Job Training Quarterly Survey data.

HEAD START

Head Start began operating in 1965 under the general authority of the Economic Opportunity Act of 1964. Head Start provides a wide range of services to low-income children, primarily ages 3 to 5, and their families. Its goals are diverse and include both helping the children and their families with their present circumstances and lessening the disadvantages faced subsequently by many such children in school and work. The services provided include cognitive and language development, medical, dental, and mental health services (including screening and immunizations); and nutritional and social services. Parental involvement is extensive, through both volunteer participation and employment of parents as Head Start staff. Formal training and certification as child care workers is provided to some parents through the Child Development Associate program.

TABLE 30.—PROJECT HEAD START: PARTICIPATION AND FEDERAL FUNDING, FISCAL YEARS 1965–89

[Dollars in millions]

Fiscal year	Enrollment	Budget authority
1965 (summer only)	561,000	$96.4
1966	733,000	198.9
1967	681,400	349.2
1968	693,900	316.2
1969	663,600	333.9
1970	477,400	325.7
1971	397,500	360.0
1972	379,000	376.3
1973	379,000	400.7
1974	352,800	403.9
1975	349,000	403.9
1976	349,000	441.0
1977	333,000	475.0
1978	391,400	625.0
1979	387,500	680.0
1980	376,300	735.0
1981	387,300	818.7
1982	395,800	911.7
1983	414,950	912.0
1984	442,140	995.7
1985	452,080	1,075.1
1986	451,732	[1] 1,040.3
1987	446,523	1,130.5
1988	[2] 448,464	1,206.3
1989	[2] 452,314	1,235.0

[1] Post Gramm-Rudman.

[2] Estimated in President Reagan's fiscal year 1990 budget.

Note: Since 1982, only full year services have been provided. A total of 10,495,300 children have been served by the program since it began in 1965.

Head Start's eligibility guidelines require that at least 90 percent of the children served come from families with incomes at or below the poverty line; furthermore, at least 10 percent of the children must be handicapped. In fiscal year 1988, 448,464 children—about 17 percent of 3- to 5-year-old children living in poor families—were served in Head Start programs, at a total Federal cost of $1.2 billion.[32] About one-fifth of those served were in full-day programs (more than 6 hours per day). Approximately 47 percent of Head Start children were in families receiving AFDC benefits. Table 30 provides historical data on participation in and funding of the Head Start program.

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

The predecessor to the Low-Income Home Energy Assistance Program (LIHEAP) was created by Title III of the Crude Oil Windfall Profit Tax Act of 1980 (P.L. 96-223). The purpose of LIHEAP is to help low-income households meet their energy-related expenses. In fiscal year 1981, $1.85 billion was appropriated for the program.

In 1981, title XXVI of the Omnibus Budget Reconciliation Act (OBRA) (Public Law 97-35), the Low-Income Home Energy Assistance Act of 1981, authorized the Secretary of Health and Human Services to make LIHEAP allotments to States for fiscal years 1982-1984. The Act permitted States to provide three types of energy assistance. States can: (1) help eligible households pay their home heating or cooling bills, (2) use up to 15 percent of their LIHEAP allotment for low-cost weatherization, and (3) provide assistance to households during energy-related emergencies.

The Human Services Reauthorization Act of 1984 (Public Law 98-558) amended the Low-Income Home Energy Assistance Act of 1981 and authorized appropriations for fiscal years 1985 and 1986. Appropriations for fiscal years 1982, 1983, and 1984 were $1.875, $1.975, and $2.075 billion, respectively. Public Law 98-619 appropriated $2.1 billion for fiscal year 1985. Public Law 99-178 appropriated $2.1 billion for fiscal year 1986.[33]

The Human Services Reauthorization Act of 1986, Public Law 99-425, amended the Act and extended the appropriations authorization through fiscal year 1990. Authorized appropriations levels are: $2.050 billion for fiscal year 1987; $2.132 billion for fiscal year 1988; $2.218 billion for fiscal year 1989; and $2.307 billion for fiscal year 1990. The appropriations for fiscal years 1987, 1988, and 1989 were $1.825 billion, $1.535 billion and $1.385 billion, respectively, including funding for Federal administration and training and technical assistance.[34]

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[32] If Head Start programs are enrolling the maximum number of nonpoor children permitted, the proportion of poor children served would be about 16 percent.

[33] The Balanced and Emergency Deficit Control Act of 1985, as reaffirmed by Public Law 99-366, required the cancellation of $90.3 million of fiscal year 1986 budget authority.

[34] Funding for Federal administration and training and technical assistance (the majority of which is appropriated through a separate budget account) is estimated here at $2-$3 million a year. The fiscal year 1989 appropriation for allotments to States and territories (and training and technical assistance) was reduced from $1.4 billion to $1.383 billion (1.2 percent) under the terms of Public Law 100-436.

ALLOTMENTS TO STATES[35]

States may transfer up to 10 percent of their LIHEAP allotment to one or any combination of the block grants for community services, title XX social services, preventive health and health services, primary health care, and maternal and child health services. A State's decision to transfer part of its allotment to a block grant does not affect its subsequent fiscal year allotment. The maximum amount of LIHEAP funds that a State can carry over to the next fiscal year is 15 percent. This provision applies to a State's allotment after adjustments have been made for tribal set aside and transfers to block grants. States must explain why funds are held over until the next fiscal year and what types of assistance the funds will provide. The amount carried over does not affect the State's subsequent fiscal year allocation. Amounts above 15 percent that are not spent by the State must be reallocated by the Secretary of Health and Human Services. Special allotment and set-aside rules apply to grants for Indian tribes and the territories.

Table 31 shows State allotments for 1981 and recent fiscal years, and table 32 illustrates number of households receiving benefits from the single largest program component, heating assistance, average heating benefits and total dollars spent on heating assistance.

ELIGIBILITY AND TYPES OF ASSISTANCE

States have considerable discretion to determine eligibility criteria for LIHEAP and the types of energy assistance to be provided. At State option, LIHEAP payments can be made to households, based on categorical eligibility, where one or more persons are receiving: Supplemental Security Income, Aid to Families with Dependent Children, Veterans' Pensions, or Dependency and Indemnity Compensation. States can also elect to make payments to households with incomes that are less than 150 percent of the Federal poverty income guidelines or 60 percent of the State's median income, whichever is greater. Individuals who are denied benefits are entitled to an administrative hearing, except with regard to weatherization programs. The term "household" is defined as any individual or group of individuals who are living together as one economic unit and for whom residential energy is customarily purchased in common, or who make undesignated payments for energy in the form of rent. States cannot establish an income eligibility ceiling that is below 110 percent of the poverty level. States also are prohibited from treating categorically eligible and income eligible households differently with respect to LIHEAP. Further, LIHEAP benefits cannot be used to calculate income or resources, or affect other benefits, under Federal or State law, including public assistance programs.

States are required to give assurances that the largest benefits go to those households that have the lowest income and highest energy costs relative to their income, taking into account family size. In addition, States are to conduct outreach activities aimed at making households with elderly or handicapped individuals aware that energy assistance is available. These outreach services may include: toll-free information hotlines, special application periods, transportation to LIHEAP application offices, and home visits. Section 607(a) of Public Law 98-558 directs the Department of Health and Human Services to collect annual data, including information on the number of LIHEAP households in which at least one household member is 60 years old or handicapped.

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[35] As the result of court settlements of oil price overcharges under the Emergency Petroleum Allocation Act of 1973, substantial additional funding has been made available to States to supplement Federal LIHEAP appropriations; in fiscal year 1988, an estimated $160 million of these supplemental funds were used for the LIHEAP.

States also have considerable discretion in the methods they have available to provide assistance to eligible households. Methods that are used, vary by State and program. A list of methods that are used includes cash payments, vendor payments, two-party checks, vouchers/coupons, and payments directly to landlords. When paying home energy suppliers directly, States are required to give assurances that suppliers will charge the eligible households the difference between the amount of the assistance and the actual cost of home energy. Also, States may use Federal funds to provide tax credits to energy suppliers who supply home energy to low-income households at reduced rates.

PLANNING AND ADMINISTRATION

States are required to submit an application for funds to the Secretary of Health and Human Services. As part of the annual application, the chief executive officer of the State is required to make several assurances related to eligibility requirements, anticipated use of funds, as well as to satisfy planning and administrative requirements. States are prohibited from using more than 10 percent of their total LIHEAP allotment for planning and administrative costs.

States must provide for public participation and public hearings in the development of the State plan, including making it, and any substantial revisions, available for public inspection and allowing public comment on the plan. Public Law 98-558 requires States to engage an independent person or organization to prepare an audit at least once every two years. However, the Single Audit Act of 1984 (P.L. 98-502) supersedes this requirement in most instances, and requires grantees to conduct an annual audit of all Federal financial assistance received. The law also contains two other related provisions. First, the Comptroller General is directed to evaluate, at least once every three years, whether a State's LIHEAP expenditures are consistent with law. Second, the Department of Health and Human Services is to develop regulations to prevent waste, fraud, and abuse in LIHEAP. (These regulations were published in final form on October 13, 1987.)

TABLE 31.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS

[In thousands of dollars]

States	Fiscal year—					
	1981 [1]	1985 [2]	1986 [3]	1987 [4]	1988 [4]	1989 [4]
Alabama	15,674	18,234	17,718	15,651	13,152	11,878
Alaska	7,505	7,247	10,815	9,990	8,395	7,582
Arizona	6,426	8,150	8,569	7,569	6,361	5,744
Arkansas	11,960	13,973	13,520	11,943	10,036	9,064
California	84,088	97,894	95,051	83,963	70,559	63,723
Colorado	29,319	33,299	31,692	29,275	24,602	22,218
Connecticut	38,247	43,440	41,344	38,191	32,094	28,984
Delaware	5,077	5,931	5,732	5,069	4,260	3,847
District of Columbia	5,940	6,940	6,437	5,931	4,984	4,501
Florida	25,921	28,970	28,035	24,765	20,811	18,795
Georgia	19,609	22,910	22,166	19,580	16,454	14,860
Hawaii	1,975	2,243	2,135	1,972	1,657	1,497
Idaho	11,181	12,877	12,362	11,419	9,596	8,667
Illinois	105,862	123,679	116,214	105,706	88,830	80,224
Indiana	47,431	55,371	52,207	47,861	40,220	36,323
Iowa	29,470	38,581	36,720	33,919	28,504	25,743
Kansas	15,515	18,211	17,286	15,577	13,090	11,822
Kentucky	24,943	29,141	28,187	24,906	20,930	18,902
Louisiana	16,024	18,867	18,106	16,001	13,446	12,144
Maine	27,513	27,914	26,784	24,742	20,792	18,777
Maryland	29,285	34,214	33,104	29,242	24,574	22,193
Massachusetts	82,707	86,878	82,701	76,394	64,198	57,979
Michigan	111,598	113,951	110,067	100,358	84,336	76,166
Minnesota	72,409	82,239	78,271	72,302	60,759	54,873
Mississippi	13,930	15,683	15,190	13,418	11,276	10,184
Missouri	37,885	48,026	47,784	42,223	35,482	32,045
Montana	11,350	12,298	14,500	13,394	11,256	10,165
Nebraska	13,799	19,032	18,159	16,774	14,096	12,731
Nevada	3,560	4,151	4,024	3,555	2,987	2,698
New Hampshire	14,481	16,447	15,654	14,460	12,151	10,974
New Jersey	71,025	82,849	80,261	70,920	59,598	53,824
New Mexico	8,867	9,973	10,724	9,476	7,963	7,192
New York	231,907	263,291	250,683	231,565	194,596	175,744
North Carolina	34,561	40,378	39,067	34,510	29,001	26,191
North Dakota	7,995	14,612	15,751	14,550	12,227	11,043
Ohio	93,651	109,413	105,829	93,512	78,583	70,970
Oklahoma	15,998	16,004	16,286	14,387	12,090	10,918
Oregon	22,723	25,808	24,563	22,690	19,067	17,220
Pennsylvania	124,568	141,479	134,653	124,385	104,527	94,400

TABLE 31.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS—Continued

[In thousands of dollars]

States	Fiscal year—					
	1981 [1]	1985 [2]	1986 [3]	1987 [4]	1988 [4]	1989 [4]
Rhode Island	12,594	14,220	13,613	12,575	10,567	9,544
South Carolina	13,822	14,544	14,072	12,430	10,446	9,434
South Dakota	10,241	11,434	12,793	11,817	9,931	8,969
Tennessee	25,267	29,520	28,561	25,230	21,202	19,148
Texas	41,261	48,206	46,641	41,200	34,623	31,268
Utah	13,289	14,827	14,727	13,604	11,432	10,325
Vermont	10,854	12,328	11,733	10,838	9,108	8,226
Virginia	39,019	41,677	39,907	35,620	29,934	27,034
Washington	33,104	40,896	40,403	37,321	31,363	28,325
West Virginia	16,507	19,285	17,934	16,483	13,851	12,509
Wisconsin	61,679	74,027	70,456	65,083	54,692	49,394
Wyoming	3,561	6,195	5,897	5,447	4,577	4,134
U.S. total	1,813,177	2,077,577	2,005,093	1,819,797	1,529,266	1,381,112

[1] Includes reallocation of funds and crisis intervention funds. Source: Low Income Energy Assistance Program; Report to Congress for Fiscal Year 1981; U.S. Department of Health and Human Services.

[2] Column does not add to total due to rounding. Source: U.S. Department of Health and Human Services, January 1985.

[3] State's final fiscal year 1986 allotments after reduction of $90.2 million required under Public Law 99-177 plus reallotment of $251,579 in fiscal year 1985 funds. Column does not add to total due to rounding. Source: U.S. Department of Health and Human Services, January 1987.

[4] Column does not add to total due to rounding. Source: U.S. Department of Health and Human Services, January 1987, January 1988, and January 1989.

Note: Includes payments to Indian tribal organizations. Excludes Federal administrative costs and payments to territories, approximately $4 million annually.

TABLE 32.—HEATING ASSISTANCE BENEFITS, NUMBER OF HOUSEHOLDS ASSISTED, AND AVERAGE BENEFIT BY STATE

[Fiscal year 1988]

State	Heating assistance benefits (in thousands) [1]	Estimated number of households assisted	Estimated average benefit (in dollars)
Total	$1,144,703	5,907,408	NA
Alabama	7,610	72,474	$105
Alaska	4,437	10,887	408
Arizona	[2] 2,781	[2] 20,129	[2] 138
Arkansas	7,647	72,596	104
California	[2] 35,690	[2] 479,378	[2] 74
Colorado	[3] 16,798	66,189	253
Connecticut	33,761	71,611	563

TABLE 32.—HEATING ASSISTANCE BENEFITS, NUMBER OF HOUSEHOLDS ASSISTED, AND AVERAGE BENEFIT BY STATE—Continued

[Fiscal year 1988]

State	Heating assistance benefits (in thousands) [1]	Estimated number of households assisted	Estimated average benefit (in dollars)
Delaware	3,862	11,617	346
District of Columbia	3,102	14,490	214
Florida	[2] 15,911	[2] 174,723	[2] 91
Georgia	8,106	47,281	171
Hawaii	[4] 1,234	[4] 6,331	[4] 195
Idaho	5,980	35,212	170
Illinois	63,072	314,027	201
Indiana	36,205	146,250	256
Iowa	20,930	101,632	206
Kansas	11,311	52,123	217
Kentucky	4,980	47,254	105
Louisiana	5,161	64,927	79
Maine	15,966	52,948	301
Maryland	21,390	83,501	253
Massachusetts	[5] 68,030	139,400	525
Michigan	40,200	276,000	146
Minnesota	41,600	113,500	360
Mississippi	8,922	70,253	127
Missouri	27,713	132,950	208
Montana	6,200	21,106	293
Nebraska	8,516	35,753	228
Nevada	1,937	12,362	207
New Hampshire	10,211	22,878	446
New Jersey	54,356	139,872	389
New Mexico	6,231	45,000	140
New York	187,925	797,547	236
North Carolina	20,502	163,335	125
North Dakota	8,306	17,629	471
Ohio	46,036	373,933	127
Oklahoma	9,902	90,232	110
Oregon	12,885	69,143	186
Pennsylvania	88,913	390,905	227
Rhode Island	8,944	24,683	362
South Carolina	7,678	90,647	85
South Dakota	6,413	21,567	318
Tennessee	15,834	67,763	233
Texas	16,885	333,310	51
Utah	7,885	41,400	190

TABLE 32.—HEATING ASSISTANCE BENEFITS, NUMBER OF HOUSEHOLDS ASSISTED, AND AVERAGE BENEFIT BY STATE—Continued

[Fiscal year 1988]

State	Heating assistance benefits (in thousands) [1]	Estimated number of households assisted	Estimated average benefit (in dollars)
Vermont	7,960	16,500	482
Virginia	31,517	111,300	283
Washington	14,729	79,080	186
West Virginia	10,113	71,382	142
Wisconsin	39,411	181,682	214
Wyoming	3,011	10,616	284

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[1] State estimates of heating assistance obligations for fiscal year 1988 from the following available funds: fiscal year 1987 LIHEAP funds carried over for use in fiscal year 1988; "oil overcharge" funds made available by States for use in LIHEAP; Federal LIHEAP allotments (net of set-asides for Indian tribes); and any State or other funds made available for LIHEAP heating assistance.

[2] Benefits for heating and cooling assistance combined.

[3] Includes approximately $575,000 for outreach.

[4] Households received energy assistance with no differentiation between heating and cooling assistance.

[5] Includes approximately $11.7 million in State funds used to supplement LIHEAP benefits.

Source: U.S. Department of Health and Human Services, January 1989. Data compiled from telephone interviews with State offices conducted in September 1988.

VETERANS' BENEFITS AND SERVICES

The Veterans Administration (VA) offers a wide range of benefits and services to eligible veterans, members of their families, and survivors of deceased veterans. The VA programs include veterans compensation and veterans pensions—the main cash-assistance entitlement programs—readjustment and rehabilitation benefits, education and job training programs, medical care services, and the housing and loan guaranty programs. Also, the VA provides life insurance, burial benefits, and special counseling and outreach programs. In fiscal year 1988, Federal outlays for veterans' benefits and services were $29.4 billion.

VETERANS COMPENSATION AND VETERANS PENSIONS

Service-connected compensation is paid to veterans who have incurred injuries or illnesses while in service. The amounts of the monthly payments are determined by disability ratings that are based on presumed average reductions in earnings capacities caused by the disabilities. Disability ratings generally range from 10 percent to 100 percent in 10-percent intervals; multiple injuries may result in combined-degree ratings, however, and some injuries are compensable at a zero-percent rating. Death compensation or dependency and indemnity compensation is paid to survivors of veterans who died as a result of service-connected causes. In 1988, about 2.2 million disabled veterans and 326,000 survivors received $11.3 billion in compensation payments.

Veterans pensions are means-tested cash benefits paid to war veterans who are age 65 or older or who have become permanently and totally disabled from non-service-connected causes, and to survivors of war veterans. Under the current or "improved law" program, benefits are based on family sizes, and the pensions provide a floor of income: effective December 1, 1988, the basic benefit before subtracting other income sources is $8,466 for a veteran with one dependent ($6,463 for a veteran living alone). Somewhat less generous benefits are available to survivors; a surviving spouse with no children could receive two-thirds of the basic benefit amount given a single veteran. About 1.23 millon persons received $3.9 billion in veterans pension payments in 1988.

READJUSTMENT, EDUCATION, AND TRAINING BENEFITS

Several Veterans Administration programs support readjustment, education, and job training for veterans and military personnel who meet certain eligibility criteria. The largest of these programs are the Vietnam-era GI bill, the post-Vietnam-era education program, and the Montgomery GI bill programs for active duty selected service. Participation under the Vietnam-era GI bill ends on December 31, 1989. Each program covers veterans of specific service-enrollment periods, and provides specific educational and vocational benefits, ranging from college courses to on-the-job training. The post-Vietnam-era education program (closed for new enrollments after March 1987) is funded by the Department of Defense appropriations and only administered by the VA. The veterans' job training act program provides payments to defray training costs of employers who hire certain veterans of the Korean conflict or Vietnam era who have been unemployed for long periods of time. Net outlays from the VA account in 1988 for all education and training programs came to $454 million.

MEDICAL PROGRAMS

The VA provides inpatient and outpatient medical and health-related services, and operates 172 hospital centers, 119 nursing homes, 26 domiciliaries, and 233 outpatient clinics. The VA extends free priority care to service-connected disabled veterans, to veterans in special categories, and to needy veterans—in 1989, those with incomes below $16,466 ($19,759 for a veteran with one dependent). Veterans eligible under these criteria are called "Category A" veterans, and they are entitled to hospital care. As facilities and other resources permit, the VA gives no-cost care to other non-service-connected veterans with incomes above $16,466 but below $21,954 (above $19,759 but below $27,440 for a veteran with one dependent). Medical care for higher income veterans requires copayments, and is available as long as resources permit. VA-operated nursing home care is augmented by VA-supported care under contract in private community nursing homes and with per diem payments for veterans in State-run homes for veterans.

The VA operates a nationwide health system. In 1988, the VA received approximately 2.9 million applications for care; about 1.1 million hospital patients and 107,700 nursing home and domiciliary patients were treated in both VA and non-VA facilities; and 23.2 million outpatient visits were provided. Construction and modernization of facilities, as well as medical research and training programs, are also funded through VA appropriations. In 1988, VA medical programs cost the Federal Government $10.8 billion (see table 33).

TABLE 33.—EXPENDITURES AND NUMBER OF RECIPIENTS OF VETERANS BENEFITS AND SERVICES, FOR SELECTED FISCAL YEARS [1]

Fiscal year	Compensation and pensions	Readjustment, education, job training	Medical programs [2]	Housing and loans
	Outlays (in billions of dollars)			
1975	7.4	4.6	3.7	(3)
1980	11.0	2.3	6.5	(3)
1981	12.2	2.3	7.0	0.2
1982	13.2	1.9	7.5	.1
1983	13.7	1.6	8.3	(3)
1984	13.8	1.4	8.9	.2
1985	14.1	1.1	9.5	.2
1986	14.3	.5	9.9	.1
1987	14.3	.5	10.3	.3
1988	15.2	.5	10.8	1.3
	Recipients (in thousands)			
1975	4,855	2,804	1,985	290
1980	4,646	1,232	2,671	297
1981	4,535	1,074	2,765	188
1982	4,407	900	2,720	103
1983	4,286	755	2,933	245
1984	4,123	629	3,026	252
1985	4,005	491	2,963	179
1986	3,900	388	2,942	314
1987	3,850	312	2,900	479
1988	3,762	273	2,922	235

[1] The major programs funded through the Veterans Administration are included in the table; outlays for other, smaller programs, as well as general operating expenses, are not included. Outlays are net of receipts.

[2] Medical program expenditure data include outlays for direct medical services, medical research and training, and construction programs. Recipients are the number of applicants for all types of medical care during the year.

[3] Spending in this category was less than $50 million.

Source: Veterans Administration.

HOUSING AND LOAN PROGRAMS

The VA assists veterans in attaining home ownership through VA guarantees of mortgages and through direct loan programs. In the loan guaranty program, mortgage credit needs of veterans and service personnel may be satisfied by private lenders on more liberal terms than would be generally available to nonveterans. The Federal Government's guaranty replaces substantial down payments and other investment safeguards used by conventional mortgagers. In the event of foreclosure, the guaranty protects lenders against losses. The guarantee has been changed for all loan commitments made after December 31, 1987, to the following: for home loans of $45,000 or less, the guarantee is worth up to 50 percent of the loan amount; for loans over $45,000, the maximum guarantee is the lesser of 40 percent of the mortgage amount or $36,000, but at least $22,500 for such loans. Direct loans from the VA may also be available to persons who purchase properties acquired by the VA when veterans default on loans. To offset some of the costs of servicing the loans, a user fee equal to 1 percent of the mortgage amount is required. The authority to collect the funding fee will expire on September 30, 1989. In 1988, the VA guaranteed about 234,700 such loans.

Special direct loans are made to certain totally disabled veterans in connection with grants to assist them in acquiring suitable housing. Only three such loans were processed for a severely disabled veteran in 1988. Other severely disabled veterans received grants to buy, build, or modify homes.

TRENDS IN USE AND COSTS

Veterans programs are undergoing shifts in the demand for services as a result of changing demographics and eligibility. The veteran population as a whole is decreasing in numbers—from about 29.5 million in 1975 to 27.3 million in 1988—but the number of veterans age 65 or older is increasing rapidly—from about 2.2 million in 1975 to about 6.4 million in 1988 to an expected 7.2 million veterans by 1990. The use and cost of medical care, for example, are expected to grow more rapidly over the next several years than those of other veterans' benefits and services, unless constrained by discretionary appropriations. Compensation and pension caseloads are decreasing steadily due to beneficiary deaths, terminations for excess incomes, and age limitations for dependents. In addition, participation is declining under the Vietnam-era GI Bill as Vietnam-era veterans reach the delimiting period, when eligibility ceases. However, as more veterans become eligible for the Montgomery GI bill, the number of trainees will increase.

Cost-of-living adjustments are usually appropriated for veterans compensation payments, while improved-law veterans pensions increase automatically each year at the same time and by the same percentage as Social Security benefits.

PART 2

TRUST FUNDS WHICH PROVIDE BENEFITS TO INDIVIDUALS WITHIN THE REVENUE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Black Lung Disability Trust Fund
Section 2. Tax Court Judges Survivors Annuity Fund
Section 3. Railroad Retirement System
Section 4. Railroad Unemployment Compensation System

Section 1. Black Lung Disability Trust Fund

LEGISLATIVE HISTORY AND JURISDICTION

National attention was focused on the working conditions of coal miners following a West Virginia coal mine accident in 1968 that killed 78 workers. Congressional hearings the following year on reform of the coal mine safety laws also examined the problems of coal workers' pneumoconiosis, or black lung disease. The Federal Coal Mine Health and Safety Act of 1969 established Federal minimum standards for mines in order to protect the safety and health of coal miners. In addition, title IV of the act provided benefits for miners totally disabled by black lung disease and for dependents of miners who had died from the disease or were totally disabled from the disease at death.

The 1969 act was the first effort, at any level of government, to provide benefits exclusively to the victims of a single occupational disease. This was also the first time the Federal Government took major responsibility in the traditionally State-administered area of workers' compensation. The 1969 act was amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, the Black Lung Revenue Act of 1977, the Black Lung Benefits Revenue Act of 1981, and Public Law 99-272. Most recently Public Law 100-203 extended current coal excise tax rates through 2013.

The statutory provisions of the act as amended are contained in 30 U.S.C. sections 901 et seq. and in the Internal Revenue Code of 1954 sections 4121, 4218, 4952, 4953, and 9501, et seq.

There are two distinct programs of black lung benefits under title IV: part B and part C. The part B program is financed by Federal general revenues and is administered by the Social Security Administration (SSA). Benefits under part B are payable only for claims filed on or before June 30, 1973 (December 31, 1973, in the case of survivors), and thus no new beneficiaries can be added to the rolls. The part C program is administered by the Department of Labor (DOL) and generally applies to claims filed after June 30, 1973. Benefits under part C are paid either by the "responsible" coal mine operator or by the Black Lung Disability Trust Fund.

The Black Lung Disability Trust Fund was created in 1978 pursuant to the Black Lung Benefits Revenue Act of 1977 (Public Law 95-227). In 1981, the statutory provisions of the Black Lung Disability Trust Fund were transferred to the Internal Revenue Code by the Black Lung Benefits Revenue Act of 1981 (Public Law 97-119). The 1981 act, the 1986 Consolidated Omnibus Budget Reconciliation Act (Public Law 99-272), and the 1987 Ominbus Budget Reconciliation Act (Public Law 100-203) revised provisions governing the Trust Fund's Finance (i.e., excise tax rates on coal and interest on the debts owed by the Trust Fund).

The Committee on Ways and Means has jurisdiction over the excise tax on coal, the structure and administration of the Black Lung Disability Trust Fund, the expenditure purposes of the Trust Fund and tax provisions as to the coal mine operators' self-insurance trusts. The Committee on Education and Labor has jurisdiction over eligibility and evidentiary standards, claims adjudication, and related benefit provisions.

BENEFIT STRUCTURE

Generally, the Black Lung Disability Trust Fund ("Trust Fund") is required to pay benefits with respect to part C claims (claims filed *after* June 30, 1973) in which the miner's last coal mine employment was *before* January 1, 1970. Part B claims (claims filed on or *before* June 30, 1973) are generally paid by the Social Security Administration out of the general revenues of the Treasury, not the Trust Fund. If a miner's last coal mine employment was *after* January 1, 1970, and the claim was filed *after* June 30, 1973, benefits are paid by the coal mine operator judged to be responsible, the so-called "responsible operator," not the Trust Fund. However, the Trust Fund pays benefits if there is no responsible operator among the miner's employers or if the responsible operator is in default. Under the Black Lung Benefits Revenue Act of 1981, liability for certain claims which had been denied prior to March 1, 1978, but which were reviewed and approved under the liberalized eligibility criteria of the Black Lung Benefits Reform Act of 1977, was also transferred to the Trust Fund. When an operator is determined to be responsible for the payment of benefits which in fact have been paid out of the Trust Fund, then the operator is obligated to reimburse the Trust Fund for those amounts plus interest.

The expenses of the Department of Labor and the administrative expenses of the Department of Health and Human Services for the claims program financed through the Trust Fund are paid out of the Trust Fund moneys. The Trust Fund also bears the cost of its own administration as well as the costs of administering the collection of the excise tax on coal.

A claim under part B or C must meet three general conditions in order to be approved for black lung disability benefits: (1) the miner must have (or, if deceased, have had) pneumoconiosis; (2) the miner must be totally disabled by the disease (or must have been totally disabled at the time of death); and (3) the pneumoconiosis must have arisen out of coal mine employment. There are certain statutory presumptions that are used to establish eligibility.

TABLE 1.—NUMBER OF PART C BENEFICIARIES [1]

[Calendar year 1980, September 1985 and 1986, and December 1987 and 1988]

Class of beneficiary	1980	1985	1986	1987	1988
Primary beneficiaries:					
Miners	52,922	61,401	59,014	56,688	54,339
Widows	26,739	37,559	38,896	40,702	41,901
Others	1,189	882	925	997	1,054
Total primary beneficiaries	80,850	99,842	98,835	98,387	97,294
Dependents of primary beneficiaries	58,223	61,010	58,566	54,882	51,862
All beneficiaries	139,073	160,852	157,401	153,269	149,156

[1] Does not include those part B beneficiaries whose medical benefits are paid under part C. Includes cases (11,000 in 1988) where payment has been suspended and where a responsible coal mine operator is paying benefits.

Source: Department of Labor.

TABLE 2.—NUMBER OF PART B BENEFICIARIES

[December 1974–80, September 1985, 1986, and November 1987 and 1988]

Class of beneficiary	1974	1980	1985	1986	1987	1988
Miners	169,097	120,235	79,443	71,849	63,573	57,421
Widows	134,700	146,603	138,902	135,738	131,561	127,634
Others	183,419	132,639	80,476	72,144	63,334	57,720
Total	487,216	399,477	298,821	279,731	258,468	242,775

Source: Social Security Bulletin.

The basic monthly benefit for a miner totally disabled from black lung or a survivor is 37½ percent of the monthly pay of a Federal employee in grade GS–2, step 1. A totally disabled miner or survivor with one dependent receives the basic monthly benefit rate increased by 50 percent. If the miner or survivor has two dependents, the benefit rate is increased by 75 percent, and if there are three or more dependents, the rate is increased by 100 percent. Benefit rates are revised each year to reflect any revision in Federal pay scales. Part B and part C benefit rates are the same except that, pursuant to a provision in the annual appropriations measure, part B benefits are rounded down to the nearest whole dollar. The monthly rates for part C as of January 1989 were:

Miner or one survivor—$358.90.
Miner or survivor with one dependent—$538.40.
Miner or survivor with two dependents—$628.10.
Miner or survivor with three dependents—$717.80.

Black lung benefits are not taxed by the Federal Government, although States may do so.

Reductions in black lung benefits or the offset of black lung benefits against other benefits are subject to significantly different rules depending upon whether the benefits are paid under part B or part C. Under part B, black lung benefits are reduced by any payments received under the workers' compensation, unemployment compensation or disability insurance laws of a State if such payments are for death or disability due to pneumoconiosis. If the State payments are made for reasons other than pneumoconiosis, black lung benefits are not reduced. Part C benefits are reduced for State or Federal workers' compensation (but *not* for unemployment compensation or disability insurance) in the same manner.

Under part B, miners or their parents, brothers or sisters (but not their spouse or children) have always been subject to an earnings test which causes their black lung benefits to be reduced as defined in section 203 of the Social Security Act (the same earnings test for Social Security recipients). This excess earnings offset does *not* apply to benefits payable under part C, unless the claim for benefits was filed on or after January 1, 1982.

Under part B, black lung benefits are not considered workers' compensation payments and therefore are not considered in calculating any Social Security disability payments under Title II of the Social Security Act. However under part C, exactly the opposite is the case, and black lung benefits must be taken into account.

Survivor benefits under the black lung program are not reduced as a result of Social Security survivor benefits.

A miner (but not a miner's family or survivors) receiving black lung cash benefits is eligible for medical and rehabilitation benefits including treatment and/or medications prescribed for the miner's black lung disease and directly associated illnesses. Medical costs are paid either by a responsible coal mine operator or by the Trust Fund, whichever is responsible for payment of regular monthly benefits.

FINANCING MECHANISM

A manufacturers' excise tax is imposed on domestically mined coal (other than lignite) which is sold or used by the producer (Internal Revenue Code sections 4121 and 4218). Prior to 1982, the rate of tax was the lesser of (1) 50 cents per ton for coal from underground mines and 25 cents per ton for coal from surface mines, or (2) 2 percent of the price for which the coal was sold. Under 1981 amendments (Public Law 97-119), the rate of tax was doubled to the lesser of (1) $1 per ton for coal from underground mines and 50 cents per ton for coal from surface mines, or (2) 4 percent of the price for which the coal is sold. These higher rates were to revert to the pre-1982 rates on January 1, 1996, or earlier if the Black Lung Disability Trust Fund became solvent (i.e., if the Trust Fund had paid off debts owed the Federal Treasury).

In 1986, the tax rates were increased to their current level: the lesser of (1) $1.10 per ton for coal from underground mines and 55 cents per ton for coal from surface mines, or (2) 4.4 percent of the price for which the coal is sold. As with the earlier tax rates, the current rates (enacted in Public Law 99-272) are to revert to pre-1982 rates on January 1, 1996, or earlier if the Black Lung Disability Trust Fund becomes solvent.

In 1987, Congress, through the Omnibus Budget Reconciliation Act (Public Law 100-203), extended the termination date for the coal excise tax rate. These higher rates are to revert to the pre-1982 rates on January 1, 2014, or earlier if the Trust Fund achieves solvency.

Amounts equal to the revenues from this excise tax (plus any revenues from the penalty tax on taxable expenditures from a coal mine operator self-insurance trust, described below) are automatically appropriated to the Black Lung Disability Trust Fund, for payment of benefits and other Trust Fund expenses.

A responsible operator may fund its liability for black lung benefits through deductible contributions to a qualified tax-exempt trust (code section 501(c)(21)), called coal mine operators' self-insurance trusts. Misuse of a trust due to self-dealing (code section 4951) and expenditures for an improper purpose (code section 4953), trigger certain penalty excise taxes. Amounts collected under these provisions, which in the past have been very small, are appropriated to the Black Lung Disability Trust Fund.

FINANCIAL STATUS OF TRUST FUND

The Trust Fund has been operating at a deficit since its establishment in 1978. As of fiscal year 1988 it is estimated the Trust Fund has paid over $6 billion in cash benefits and medical expenses, along with $434 million in administrative costs. It also has accumulated over $1 billion in interest charges. At the same time, the excise tax on coal has generated only approximately $4.7 billion in revenues, leaving a cumulative deficit of about $3 billion through fiscal year 1988. This deficit has been financed with advances from the general revenues of the U.S. Treasury. These advances must be repaid from future Trust Fund revenues. Through fiscal year 1985, interest on the cumulative advances to the Trust Fund was also due. However, Public Law 99-272 forgave Trust Fund interest payments for fiscal years 1986 through 1990. This, along with the 10-percent increase in tax rates (discussed above) and reduced benefit spending, substantially reduced the Trust Fund's borrowing (advance from the general fund) in fiscal year 1987.

Table 3 shows the status of the Trust Fund as of the end of fiscal year 1988.

TABLE 3.—STATUS OF BLACK LUNG DISABILITY TRUST FUND

[In thousands of dollars]

Fiscal year	Income			Outgo		
	Coal tonnage tax	Interest and fines	Advances from general fund	Benefit payments [1]	Administrative expenses	Interest on advances
Actual:						
1978	92,050	1,192	18,925	76,797	35,346	
1979	221,614	122	400,809	582,038	32,149	7,740
1980	272,262		535,837	721,746	34,238	52,497
1981	236,635		554,778	644,288	35,585	109,488
1982	490,746	254	283,002	578,244	35,789	160,597
1983	493,685	321	357,773	623,129	34,936	193,273
1984	518,464	450	346,063	594,213	36,551	234,503
1985	581,390	573	335,545	583,422	40,229	274,751
1986	[2] 547,251	1,594	51,271	573,939	44,439	NA
1987	607,500	1,500	33,916	596,103	49,809	NA
1988	594,475	4,079	41,274	584,254	55,105	NA
Total	4,656,072	10,085	2,959,193	6,158,173	434,176	1,032,849

[1] Net of collections from responsible mine operators.

[2] Reflects inter-year adjustment, Actual coal tax revenues for 1985 were $561,746,000. For 1986, actual tax revenues totalled $566,845,000.

NA—Not applicable, interest forgiven.

Source: Fourth Annual Report on the Financial Condition and Results of Operations of the Black Lung Disability Trust Fund (Department of Treasury, September 30, 1981), and Budget of the U.S. Government. Appendixes for fiscal years 1984, 1985, 1986, 1987, and 1988.

Section 2. Tax Court Judges Survivors Annuity Fund

LEGISLATIVE HISTORY

The Tax Court Judges Survivors Annuity Fund was enacted in Public Law 87-370 on October 4, 1961. Amendments which increase the annuity amounts payable from the Fund were enacted in Public Law 97-362 (H.R. 4717) on October 25, 1982. Amendments to increase the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse were enacted in Public Law 98-369 (H.R. 4170) on July 18, 1984. Amendments to make the survivors annuity provisions relating to Tax Court judges parallel to those applicable to other Federal judges, following enactment of Public Law 99-336, were enacted in Public Law 99-514 (H.R. 3838), generally effective on November 1, 1986. Internal Revenue Code section 7448 provides the statutory basis for the annuities to surviving spouses and dependent children of Tax Court judges.

FINANCING MECHANISM

Any judge of the United States Tax Court may by written election while a judge (or before a successor takes office) participate in the Fund. There is deducted and withheld from the salary of each judge electing to participate 3.5 percent of that judge's salary. The amounts deducted and withheld are deposited, in accordance with procedures prescribed by the Comptroller General of the United States, in the U.S. Treasury to the credit of the Tax Court Judges Survivors Annuity Fund. A judge may deposit, with interest at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter, compounded on December 31 of each year, to the credit of the Fund, a sum equal to 3 percent of the judge's salary and of that individual's basic salary, pay, or compensation for service as a Senator, Representative, Delegate, or Resident Commissioner in Congress, and for any other civilian service within the purview of 5 U.S.C. 8332 for services performed before November 1, 1986, and 3.5 percent for services performed after November 1, 1986. Each judge may elect to make the deposits in installments during continuance of service as a judge in such amount and under such conditions as may be determined in each instance by the chief judge of the Tax Court.

Notwithstanding the failure of a judge to make the deposit, credit is allowed for the service rendered, but the annuity of the surviving spouse of the judge is reduced by an amount equal to 10 percent of the amount of the deposit, computed as of the date of the death of the judge (unless the surviving spouse elects not to count the service, for which the deposit was not made, in determining the annuity due). No deposit is required from a judge for any year with respect to which deductions from salary were actually made under the civil service retirement laws. Also, no deposit is required for any honorable service in the Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States.

EXPENDITURE PURPOSES

The Fund is used to pay annuities to a deceased judge's surviving spouse and children.

If a judge who elects to participate in the Fund dies after having rendered at least 5 years of civilian service for which salary was withheld for the Fund (or for which salary was withheld under the civil service retirement laws), a surviving spouse or surviving dependent child is entitled to an annuity from the Fund. If the surviving spouse has not attained age 50 at the date of the judge's death (and no dependent child survives), the annuity commences when the surviving spouse reaches age 50. The annuity payable to a surviving spouse terminates upon the surviving spouse's death or remarriage. An annuity payable to a dependent child and to a surviving spouse, if the judge is also survived by a dependent child, begins immediately after the judge's death. The annuity for a dependent child terminates generally upon the surviving child's reaching 18 years of age, marriage, or death. If the child is incapable of self support because of mental or physical disability, the annuity would terminate only upon death, marriage, or recovery from the disability.

The annuity payable to a surviving spouse of a judge electing under the Fund is equal to a stated percentage (generally 1¼ percent) of the average annual salary received by the judge (whether the judge's salary or compensation for other allowable Federal service) for the 5 consecutive years in which the judge received the largest average annual salary, multiplied by the sum of years of judicial or other allowable Federal service. The annuity for the surviving spouse cannot exceed 37½ percent of the average annual salary of the judge. The annuity of the surviving spouse will be reduced to account for periods of time when the judge did not contribute to the Fund. The amount of the annuity payable to a surviving dependent is based upon the annuity payable to a surviving spouse (subject to certain limits).

Under the 1982 amendments, annuities payable with respect to judges dying after the date of enactment are increased by (1) basing the annuity on the judges' salary for the 3 (versus 5) consecutive years in which the judges received the largest average annual salary, and (2) increasing the maximum annuity to 40 percent (versus 37½ percent) of such average annual salary. These amendments also provide that survivor annuities will be adjusted for cost-of-living increases by increasing such annuities by 3 percent for each 5 percent by which the salary of Tax Court judges is increased. Annuities in pay status on the date of enactment are adjusted immediately to reflect post-1963 salary increases.

Under the 1984 amendments, the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse are increased from $900 per year per family ($360 per child) to $4,644 per year per family

($1,548 per child). Where there is no surviving spouse, the maximum annuities for surviving dependent children are increased to $5,580 per year per family, or $1,860 per child, whichever is less. These increases are effective for annuities payable for months beginning after July 18, 1984.

Under the 1986 Tax Reform Act, the judges' salary contribution to the fund and civilian service for benefits to be payable under the program increased from 3 percent to 3.5 percent. The annuity for a surviving spouse increased to 1½ percent (verses 1¼ percent) of the judge's average salary per the 3-year consecutive year requirement, but cannot exceed 50 percent (versus 40 percent) of the average annual salary, nor be less than 25 percent of the average annual salary. The annuity payable to a surviving spouse does not terminate upon remarrige at age 55 or older. Where there are children and a surviving spouse, the maximum annuity per child is the lesser of 10 percent of the average annual salary, or 20 percent of the average annual salary divided by the number of children (versus the lesser of 50 percent of the spouse's annuity to $4,644 per year per family, or $1,548 per child). Where there is no surviving spouse, the maximum annuity per child is the lesser of 20 percent of the average annual salary or 40 percent of the average annual salary divided by the number of children (versus an amount equal to what spouse would have received if surviving not to exceed $5,580 per year per family, or $1,860 per child, which ever is less). Judges who retire under a new retirement election, i.e., fixed salary and opportunity to practice law, will continue to have the prescribed deduction (3.5 percent) withheld from their retired pay and will receive credit for those years of contribution. A judge who "ceases to be married" after electing to participate in the Fund may terminate his participation and receive a refund of contributions plus interest. The increase in salary deductions is effective November 1, 1986. The increase in the civilian service percentage is effective for service performed after November 1, 1986. The amendments apply to annuities starting after November 1, 1986. Any judge electing prior to November 1, 1986, to participate in the fund may revoke that election within the 180-day period beginning after enactment and receive a refund of contributions plus interest. Any judge who revokes within the 180-day period may later participate only upon repayment of entire refund plus interest.

FINANCIAL STATUS OF FUND

As of September 30, 1988, 26 judges of the Tax Court were participating in the Fund, and 4 eligible widows were receiving survivor annuities.

Actual outlays for fiscal year 1985, 1986, 1987, and 1988 were $26,000, $53,000, $60,000 and $96,000 respectively; and estimated outlays for fiscal years 1989 and 1990 are $108,000 for each year.

Section 3. Railroad Retirement System

The railroad retirement system is a federally legislated program which provides retirement, disability and survivor annuities to workers whose employment was connected with the railroad industry for at least 10 years. The system, in existence since 1936, was substantially modified by the Railroad Retirement Act of 1974 (RRA) which provided for closer coordination with the social security system. Credits are primarily secured by employment in the railroad industry, although any social security credits earned during employees' work careers are included in the benefit computation. Benefits are financed through a combination of employee, employer, and Federal Government contributions.

Retirement and survivor benefit payments during fiscal year 1988 totaled $6,676 million. These payments were made to 981,000 beneficiaries. Retired employee and spouse annuitants constituted 666,000 of these beneficiaries and received $4,915 million. Survivor beneficiaries received a total of $1,761 million, consisting of $1,753 million in monthly benefits and $8 million in lump-sum payments.

JURISDICTION

In the House of Representatives, the jurisdiction over the railroad retirement system is divided between two standing committees. Under the rules of the House, the Energy and Commerce Committee has jurisdiction over "railroads, including railroad labor, railroad retirement and unemployment, except revenue measures related thereto." That committee, therefore, has jurisdiction over the Railroad Retirement Act which contains the substantive legislation relating to railroad retirement legislation. The Committee on Ways and Means has jurisdiction over all revenue measures, including the Railroad Retirement Tax Act (Chapter 22 of the Internal Revenue Code of 1954). Within the Committee on Ways and Means jurisdiction over employment taxes and trust fund operations relating to the railroad retirement system lies within the Subcommittee on Social Security.

HISTORICAL DEVELOPMENT

In the final quarter of the 19th century, railroad companies were among the largest in America. It was in the rail industry that the first industrial pension was established in 1874. By the mid-1920's more than 80 percent of all rail workers were covered by pension plans.

In the early 1930's these pension plans began to face enormous financial problems. The commercial success of the rail industry peaked in the period between 1900 and 1920, and rail employment decreased significantly in the 1920's.

Rail pension plans were for the most part poorly constructed. There was no regulation of plan terminations, which were frequent. Pension funds were chronically underfinanced, and most could not stand the financial exigencies of the depression.

These problems plus a tradition of Federal regulation of the railroads led to the enactment of the Railroad Retirement Act of 1934.

The original railroad retirement system was structured to provide annuities to retirees based on rail earnings and length of service. Benefits were disbursed for retirees at age 65, although workers with 30 years of service could retire at 60, with a reduction in payments. The original disability provisions were very stringent. Little was provided for dependents, and nothing for spouses.

Throughout its history, the railroad retirement system has been modified many times by Congress. In the late 1940's and 1950's benefits were liberalized, and the railroad retirement system was brought into closer conformity with social security. For instance, in 1946, benefits were extended to survivors, based on combined railroad and social security covered employment. This extension represented a concern for the social goal of providing income security in old age, or social insurance, rather than simply rewarding career performance.

In the past decade and a half, the railroad retirement system has encountered recurrent financial crises as a result of employment declines in the industry, inflation, and the increase in the number of beneficiaries. Major legislation was enacted in 1974, 1981, 1983, and 1987 to prevent the system from becoming insolvent.

The Railroad Retirement Solvency Act of 1983 (Public Law 98–76) increased payroll taxes on employers and employees, deferred cost-of-living increases, reduced early retirement benefits, subjected benefits to Federal income taxes, and provided other measures designed to improve railroad retirement financing. Without the enactment of that legislation, the Railroad Retirement Board would have been required to substantially reduce benefit payments in 1983. Since the enactment of this legislation, railroad retirement revenues have exceeded benefit payments for 5 consecutive years after more than a decade of negative cash flow, and the trust fund has accumulated a reserve of almost $8 billion. However, the continuing decline in rail employment has raised questions concerning the practicality of relying on payroll tax funding in the next century. The Committee on Ways and Means consequently included railroad retirement financing amendments in the Omnibus Budget Reconciliation Act of 1987 (Public Law 100–203).

The legislation established a Commission on Railroad Retirement Reform to conduct a comprehensive study of the issues pertaining to the long-term financing of the railroad retirement system. The Commission will submit recommendations to the Congress for revisions in, or alternatives to, the current payroll tax method of financing in order to assure the provision of retirement benefits to current and future retirees on an actuarially sound basis. The Commission consists of seven members representing railroads, including commuter railroads, labor, and the public.

The 1987 budget law also increased tier II tax rates in January 1988 by a total of 2 percent: 1.35 percent on employers and 0.65 percent on employees. In addition, the law extended for 1 year, until October 1, 1989, the time during which revenues from Federal income taxes on tier II railroad retirement benefits may be transferred to the Railroad Retirement Account for use in paying benefits.

The most recent railroad retirement amendments were included with railroad unemployment insurance amendments in the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) enacted November 10, 1988. This legislation assured repayment of the Railroad Unemployment Insurance Account's debt to the Railroad Retirement Account by extending a temporary unemployment insurance tax until the debt is fully repaid with interest. Public Law 100-647 also eased work restrictions and the crediting of military service in certain cases and provided more equitable treatment of severance pay for railroad retirement purposes. In addition, this law extended the reporting date for the Commission on Railroad Retirement Reform by 1 year from October 1, 1989, to October 1, 1990.

BENEFIT STRUCTURE

The 1974 Railroad Retirement Act established three benefit components. The ongoing benefit system was divided into two "tiers," one of which approximates Social Security (tier I), and the other, an industry staff retirement benefit (tier II). The third component, a vested dual benefit, preserved certain benefits for employees who had qualified for both railroad retirement and Social Security benefits prior to the 1974 Act.

Tier I

These benefits are based on the Social Security formula, using both the employee's combined railroad earnings and non-railroad Social Security covered earnings up to the Social Security maximum wage base. The tier I benefit is roughly equal to what the Social Security benefit would have been had the worker's railroad employment been covered by the Social Security program. Because the railroad retirement tier I benefit is based on both Social Security and railroad employment, any Social Security benefit to which the railroad retirement system beneficiary is also entitled is subtracted from the tier I benefit amount. Tier I benefits are adjusted for the cost-of-living by the same percentage as Social Security benefits. For the purposes of the Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman), tier I benefits are exempt from automatic spending reductions.

Tier II

Tier II benefits are based on the employee's service in the railroad industry alone and are payable in addition to the tier I benefit amount. For current retirees, the tier II benefit is equal to seven-tenths of 1 percent of the employee's average monthly earnings in the 60 months of highest earnings, times the total number of years of railroad service, less 25 percent of any employee vested dual benefit also payable. Since 1985, tier II benefits are automatically adjusted annually on January 1 at a rate equal to 32.5 percent of the Social Security automatic cost-of-living adjustment. The 1986 tier II increase was suspended under the Gramm-Rudman Act, but the Omnibus Budget Reconciliation Act enacted October 21, 1986 (Public Law 99–509) exempted future tier II COLA's from sequestration under Gramm-Rudman.

Dual benefit payments

One of the chief purposes of the Railroad Retirement Act of 1974 was to coordinate railroad retirement and Social Security benefit payments to eliminate certain dual benefits considered to be a "windfall" for persons receiving benefits under both systems.

This "windfall" was a result of the fact that the total benefit these retirees received from both systems was higher than the benefit they would have received if their benefit was based on their total career earnings but paid only under railroad retirement. The total benefit was higher in these cases since the Social Security benefit formula favors workers who have low average earnings throughout their careers. Low career average earnings result from a career of low wages or from a relatively short career in Social Security covered employment. Workers who spend a period of time in employment not covered by Social Security, such as railroad employment, receive the benefit of this "tilt" in the benefit formula, even though they may very well not have had low career earnings.

As a result of the 1974 Act, "windfall" benefits were eliminated for any railroad employees not qualified for such benefits as of January 1, 1975. They were generally preserved for those individuals who were vested under both the railroad retirement and Social Security systems before 1975. These vested dual benefits are financed out of the general revenue fund through an annual appropriation rather than from the Social Security or railroad retirement trust funds. Under the Balanced Budget and Emergency Deficit Control Act of 1985, vested dual benefit payments were reduced during fiscal year 1986 as a controllable expenditure. The Omnibus Budget Reconciliation Act enacted in October 1986 exempted vested dual benefit payments from any future sequestrations under the Gramm-Rudman Act. However, the December 1987 Federal budget legislation, reducing domestic discretionary spending for fiscal year 1988 by 4.26 percent, lowered the funds available for payment of vested dual benefits from $368,000,000 to $352,323,000 in the 1988 fiscal year. Vested dual benefits were reduced by an average of $6 a month for 6 months. Full payment was resumed in fiscal year 1989 on the basis of an appropriation of $350,740,000. Currently paid to about one-fourth of the Railroad Retirement Board's beneficiaries, the average vested dual benefit is $112 per month.

Supplemental annuities

These are provided under the 1974 Act equal to $23 for 25 years of service plus $4 for each additional year up to a maximum of $43 per month. However, as a result of the 1981 Omnibus Budget Reconciliation Act, employees hired after October 1, 1981 are not eligible for supplemental annuities when they retire. Supplemental annuities were temporarily reduced by 8.5 percent during fiscal year 1988 under Gramm-Rudman. Withheld amounts were later repaid following enactment of the December 1987 Federal budget legislation.

Lump sum death benefits

These benefits are paid when there is no person eligible for a monthly survivor benefit in the month in which the worker died. Generally, 10 years of railroad service and a current connection with the railroad industry are required. For employees with 10 or more years of railroad service before 1975, the amount is based on the 1937 Act. For all other railroad workers, the amount is equivalent to that which would be paid under the Social Security Act (unless survivor benefits are paid).

Table 1 provides data concerning all railroad retirement benefits being paid at the end of selected fiscal years 1971–1988. Table 2 presents data on new awards for November 1988.

TABLE 1.—NUMBER AND AVERAGE AMOUNT OF RETIREMENT AND SURVIVOR ANNUITIES IN CURRENT-PAYMENT STATUS AT END OF YEAR, FOR SELECTED YEARS, BY TYPE OF ANNUITANT

Fiscal year	Total	Type of beneficiary										
		Retired employees			Spouses	Divorced spouses	Aged widows	Disabled widows	Widowed mothers	Divorced and remarried widows	Children	Parents
		Age	Disability	Supplemental								
Number at end of year:												
1971	1,067,121	348,737	95,364	81,611	212,075	....	278,741	2,972	8,076	....	39,096	449
1975	1,160,312	359,826	101,677	141,525	219,644	....	290,502	5,108	7,061	....	34,670	299
1977	1,201,059	364,402	99,672	169,257	230,758	....	292,653	6,206	6,298	....	31,566	243
1978	1,203,895	361,760	98,253	176,271	232,472	....	292,300	6,470	5,930	....	30,224	215
1979	1,204,719	358,629	96,818	182,736	233,611	....	292,073	6,770	5,406	....	28,478	198
1980	1,203,006	355,983	95,218	188,111	233,916	....	290,315	6,999	4,985	....	27,288	189
1981	1,202,364	354,608	93,743	193,436	233,977	....	288,606	7,249	4,478	....	26,094	173
1982	1,200,427	352,609	92,146	197,885	234,009	(1)	286,193	7,376	4,053	(2)	22,172	158
1983	1,193,226	349,892	89,684	201,409	232,367	(1)	288,454	7,509	3,153	(2)	20,614	144
1984	1,182,606	345,842	87,924	202,055	228,978	1,455	279,383	7,425	2,908	7,276	19,226	134
1985	1,165,202	339,696	85,685	201,140	225,587	1,697	274,954	7,465	2,655	8,355	17,845	123
1986	1,151,861	335,126	83,888	200,534	222,742	1,900	270,696	7,471	2,536	9,360	17,488	120
1987	1,139,782	330,676	83,082	200,266	220,135	2,168	266,020	7,465	2,467	10,260	17,130	113
1988	1,124,645	325,605	81,985	199,588	217,749	2,344	259,482	7,450	2,372	11,101	16,859	110

TABLE 1.—NUMBER AND AVERAGE AMOUNT OF RETIREMENT AND SURVIVOR ANNUITIES IN CURRENT-PAYMENT STATUS AT END OF YEAR, FOR SELECTED YEARS, BY TYPE OF ANNUITANT—Continued

Fiscal year	Total	Type of beneficiary										
		Retired employees			Spouses	Divorced spouses	Aged widows	Disabled widows	Widowed mothers	Divorced and remarried widows	Children	Parents
		Age	Disability	Supplemental								
Average amount:												
1971		$201	$186	$65	$95	......	$114	$115	$158	......	$112	$110
1975		329	309	62	153	......	233	200	234	......	206	187
1977		387	355	57	178	......	267	228	275	......	248	223
1978		417	380	55	191	......	285	242	301	......	269	241
1979		461	419	54	210	......	314	265	336	......	300	273
1980		526	477	53	236	......	361	302	392	......	349	310
1981		579	525	52	251	......	401	331	442	......	393	357
1982		641	576	51	280	([1])	430	354	475	([2])	399	368
1983		663	593	50	287	([1])	432	355	475	([2])	394	367
1984		682	609	49	293	$167	441	415	478	$269	400	369
1985		711	639	49	305	174	455	427	487	284	415	375
1986		745	674	48	317	179	472	439	498	299	427	379
1987		773	708	47	327	187	480	447	485	308	432	388
1988		818	759	47	343	198	499	463	499	326	447	399

[1] Included with spouse annuities.

[2] Included with aged and disabled widow and widowed mother annuities.

Note: Data exclude survivor (option) annuities. On September 30, 1988, there were 62 option annuities in current-payment status averaging $90. Figures for widows include a small number of widowers.

Source: Railroad Retirement Board.

TABLE 2.—NUMBER AND AVERAGE AMOUNT OF NEW AWARDS BY BENEFICIARY TYPE, NOVEMBER 1988

	Number	Average amount
Employee annuities:		
Retired	1,278	$930
Disability (under age 65)	239	1,159
Supplemental	738	42
Spouse annuities	1,526	336
Divorced spouse annuities	30	161
Survivor benefits:		
Aged widows and widowers	967	536
Disabled widows and widowers	18	488
Widowed mothers and fathers	20	479
Divorced and remarried widows	90	386
Children	60	491
Parents		
Insurance lump sums	754	839
Residual payments	19	5,415
Total	5,739	

Source: Railroad Retirement Board.

Financing the Railroad Retirement System

Railroad retirement and survivor benefits are financed by six sources of income. These are (1) payroll taxes on railroad earnings paid by covered employees and employers up to a certain maximum wage base; (2) income from the Social Security financial interchange; (3) proceeds derived from the taxation of railroad retirement benefits; (4) appropriations from general revenues; (5) interest on investments; and (6) a cents-per-hour tax levied on carriers only.

Payroll Taxes

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. Currently, both employers and employees pay a "tier I" tax which is equivalent to the Social Security and Hospital Insurance (part A of Medicare) tax rate. In addition, a "tier II" tax is paid by both rail employers and employees. The 1989 annual tier I and tier II wage bases are $48,000 and $35,700, respectively.

The scheduled tax rates for both tier I and tier II are shown in table 3.

TABLE 3.—SCHEDULED TAX RATES FOR TIER I AND TIER II, SELECTED YEARS

	Tier I		Wage base	Tier II		Wage base	Combined [1]	
	Employer	Employee		Employer	Employee		Employer	Employee
1975	5.85	5.85	$14,100	9.5	0	$14,100	15.35	5.85
1980	6.13	6.13	25,900	9.5	0	20,400	15.63	6.13
1984	7.00	[2] 7.00	37,800	12.75	2.75	....	19.75	9.75
1985	7.05	7.05	39,600	13.75	3.50	....	20.80	10.55
1986	7.15	7.15	42,000	14.75	4.25	....	21.90	11.40
1987	7.15	7.15	43,800	14.75	4.25	32,700	21.90	11.40
1988	7.51	7.51	45,000	16.10	4.90	33,600	23.61	12.41
1989	7.51	7.51	48,000	16.10	4.90	35,700	23.61	12.41
1990 [3]	7.65	7.65	50,700	16.10	4.90	37,800	23.75	12.55
1991 [3]	7.65	7.65	53,400	16.10	4.90	39,900	23.75	12.55
1992 [3]	7.65	7.65	56,100	16.10	4.90	42,000	23.75	12.55
1993 [3]	7.65	7.65	59,100	16.10	4.90	44,100	23.75	12.55
1994 [3]	7.65	7.65	62,100	16.10	4.90	46,500	23.75	12.55

[1] These rates apply only up to the tier II maximum wage base.

[2] A credit of 0.3 percent of wages was allowed against the 1984 employee tax rate. Appropriations to the Social Security Equivalent Benefit Account were based on the 7.00 percent rate.

[3] 1990–94 tier I and tier II wage bases are projected.

The tier I wage base is generally identical with the Social Security wage law and automatically increases with wage growth in the economy.

The tier II wage base is equal to what the Social Security tax base would have been without regard to the ad hoc increases in the taxable wage base which were provided by the Social Security Amendments of 1977 (Public Law 95-215).

Financial Interchange

The railroad retirement system and the Social Security programs have been coordinated financially since 1951. The purpose of the financial interchange is to place the Social Security trust funds in the same position they would have been in if railroad employment had been covered under Social Security since its inception.

Generally, under the interchange, for a given fiscal year there is computed the revenue that would have been collected by the Social Security trust funds if railroad employment had been covered directly by Social Security. This amount is netted against the amount of benefits Social Security would have paid to railroad beneficiaries based on railroad and nonrailroad earnings during that period. Where Social Security benefits that would have been paid exceed income to the trust funds that would have been due, the excess, plus an allowance for interest and administrative expenses, is transferred from the Social Security trust funds to the Railroad Retirement Board's Social Security Equivalent Benefit Account. If income exceeds benefits, the transfer would be from the RRB's Social Security Equivalent Benefit Account to the Social Security trust funds. Before 1985, transfers were to or from the Railroad Retirement Account.

TABLE 4.—AMOUNTS TRANSFERRED TO OR FROM (–) THE RAILROAD RETIREMENT ACCOUNT [1] AND THE VARIOUS SOCIAL SECURITY TRUST FUNDS IN FISCAL YEARS 1954 THROUGH 1988

[In millions of dollars]

	OASI	DI	HI	Total
Fiscal year:				
Through June 30, 1954	–21.1			–21.1
1955	–7.4			–7.4
1956	–5.2			–5.2
1957	–1.6			–1.6
1958	124.4			124.4
1959	282.0	–22.0		260.0
1960	318.4	–4.9		313.5
1961	331.7	5.1		336.9
1962	360.8	11.0		371.8
1963	422.5	19.6		442.1
1964	402.6	19.1		421.8
1965	435.6	23.6		459.3
1966	443.8	25.0		468.8
1967	508.0	30.6	–16.3	522.4
1968	437.6	20.4	–44.0	414.0
1969	491.5	21.3	–54.2	458.6
1970	578.8	10.4	–63.5	525.7
1971	613.0	13.2	–65.9	560.3
1972	724.3	24.2	–66.1	682.4
1973	783.0	19.5	–63.2	739.2
1974	908.6	22.3	–99.2	831.7
1975	981.8	28.5	–132.5	877.8
1976	1,212.3	26.4	–137.7	1,100.9
1977	1,207.8	–.3	–142.9	1,064.7
1978 [2]	1,588.7	29.8	–213.7	1,404.7
1979	1,447.5	29.9	–191.1	1,286.3
1980	1,442.0	–12.1	–244.3	1,185.6
1981	1,584.9	29.4	–276.5	1,337.9
1982	1,793.3	26.4	–351.4	1,468.2
1983	2,250.8	27.8	–357.7	1,920.9
1984	2,404.0	21.6	–350.6	2,075.0
1985	2,310.2	42.7	–371.4	1,981.5
1986	2,585.1	67.7	–364.4	2,288.4
1987	2,557.3	56.9	–368.0	2,246.2
1988	2,790.0	61.3	–363.8	2,487.5
Total	34,287.2	674.7	–4,338.5	30,623.3

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[1] Beginning in 1985, transfers are to or from the Social Security Equivalent Benefit Account.
[2] Includes transfers for July–September 1976 transition quarter.

Note: Detail may not add to totals because of rounding.

Source: Railroad Retirement Board.

The determination of the amount to be transferred through the financial interchange for a given fiscal year is made no later than

June of the year following the close of the preceding fiscal year. Table 4 shows the actual operation of the financial interchange as it relates to each of the three major Social Security trust funds.

In order to make available to the RRB's Social Security Equivalent Benefit Account funds from the forthcoming financial interchange on a more current basis, the Railroad Retirement Solvency Act of 1983 provided for transfers from general Treasury funds to the RRB's Social Security Equivalent Benefit Account for each month an amount equal to the Social Security level benefits paid from the account during the month less the Social Security level taxes received by the account in that month. The amount so transferred for a particular month is repaid when the Social Security system makes reimbursement for that month under the financial interchange program.

Taxation of benefits

Prior to 1984, railroad retirement benefits, with the exception of supplemental annuities, were not subject to Federal income taxation. However, as a result of the Railroad Retirement Solvency Act (Public Law 98-76) and the Social Security Act Amendments of 1983 (Public Law 98-21), tier I, tier II, and vested dual benefits received after December 31, 1983, are subject to taxation. The taxation provisions were subsequently amended by the Consolidated Omnibus Budget Reconciliation Act of 1985 and the Tax Reform Act of 1986. The budget reconciliation legislation limited the amount of tier I benefits treated as Social Security benefits for tax purposes to Social Security equivalent levels. The Tax Reform Act eliminated the 3-year recovery rule so that railroad retirement benefits exceeding Social Security equivalent levels are taxable immediately upon retirement under the general rule, with previously taxed contributions exempted on a prorated basis over estimated life expectancies.

The Social Security equivalent portions of tier I benefits are taxed in a manner identical to Social Security benefits. The proceeds derived from the taxation of those tier I benefits which are equivalent to Social Security benefits will be deposited in the Social Security Equivalent Benefit Account and credited to the Social Security trust funds through adjustments in the financial interchange. Tier I benefits in excess of Social Security equivalent levels (early retirement benefits payable at ages 60-61 and occupational disability annuities) and tier II benefits are taxed in a manner identical to private pensions and the proceeds are deposited in the Railroad Retirement Account through fiscal year 1989. Vested dual benefits are taxed as a private pension with the proceeds derived deposited in the Railroad Retirement Account until fiscal year 1989 and in the Dual Benefits Payments Account thereafter.

General revenue appropriations

Vested dual benefits are funded solely through general revenue appropriations. The Congress authorized such funding in the 1974 act through the year 2000. The total appropriated for the first 13 fiscal years for which these benefits were payable, 1976-1988, was $4,479 million.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established a Dual Benefits Payments Account. Each year an amount which is appropriated for the payment of vested dual benefits will be placed into this account from which these payments will be made to beneficiaries. If the amount which is appropriated is insufficient to pay the full vested dual benefits to all eligible beneficiaries for a full year, the Railroad Retirement Board is authorized to prorate payments from the dual benefits account so that the amounts paid do not exceed the amounts appropriated.

In addition to amounts transferred to the Dual Benefits Payments Account annually through the regular appropriations process, the Railroad Retirement Solvency Act of 1983 provided for the appropriation of approximately $1.7 billion to the Railroad Retirement Account in three installments paid on Jan. 1, 1984, 1985, and 1986. These three appropriations were to reimburse the Railroad Retirement Account for prior shortfalls in the annual appropriations. The actual amounts received totaled $2.1 billion.

Interest from investments

Funds not needed immediately for benefit payments are invested in interest-bearing securities. During fiscal year 1988 the Railroad Retirement Account and Social Security Equivalent Benefit Account received $619 million in interest income from invested assets. This represents an annualized yield of 9.28 percent.

Cents-per-hour tax

A cents-per-hour tax is used to fund the supplemental annuity benefit. This tax is levied solely on employers. The rate is determined quarterly by the Railroad Retirement Board.

FINANCIAL STATUS OF THE RAILROAD RETIREMENT ACCOUNT

One of the most important factors affecting the financial status of the railroad retirement system is the level of employment in the industry. The recent history of industry employment is shown in table 5 below.

TABLE 5.—HISTORIC LEVELS OF INDUSTRY EMPLOYMENT, 1940–87

[In thousands]

1940	1,195
1945	1,085
1950	1,421
1955	1,239
1960	909
1965	753
1970	640
1975	548
1976	540
1977	546
1978	542
1979	554
1980	532
1981	503
1982	440
1983	395
1984	395
1985	372
1986	342
1987 [1]	320
1988	303

[1] Revised.

Source: Railroad Retirement Board.

While the trust funds currently have a reserve of almost $8 billion, the continuing decline in railroad employment has raised questions concerning the financing of the railroad retirement system after the year 2000. Section 502 of the Railroad Retirement Solvency Act of 1983 requires a report each year on the railroad retirement system's actuarial status, and financing recommendations when appropriate. Because of the decline in employment, the Railroad Retirement Board's Chief Actuary recommended in his 1987 report that a commission be established to study the advisability of instituting a tax on operating revenues to fund a portion of the cost of railroad retirement benefits, and that such a study should solicit the views of railroad labor, railroad management and other interested parties. He also recommended that tier II taxes be increased until any tax adjustments recommended by the commission become effective.

The Commission on Railroad Retirement Reform is scheduled to make a report to Congress by October 1, 1990. By law, the Commission's study will take into account—

(1) the possibility of restructuring the financing of railroad retirement benefits through increases in the tier II tax rate, increases in the tier II tax wage base, the imposition of a tax on operating revenues, revisions in the investment policy of the railroad retirement pension fund, and establishing a privately funded and administered railroad industry pension plan;

(2) the economic outlook for the railroad industry, and the nature of the relationships between the railroad retirement

system, levels of railroad employment and compensation, and the performance of the rail sector;

(3) the ability of the system under current law to pay benefits to current and future retirees and other beneficiaries;

(4) the financial relationship of the system to the railroad unemployment insurance system, the social security system, and the General Fund; and

(5) any other matters which the Commission considers would be necessary, appropriate, or useful to the Congress in developing legislation to reform the system.

The 1987 budget law increased tier II payroll tax rates in January 1988 by a total of 2 percent, and allowed revenues from Federal income taxes on certain railroad retirement benefits to be returned to the railroad retirement system for an additional year.

Because of the legislation, improved short-term investment returns, and changes in actuarial assumptions, the Railroad Retirement Board's 1988 actuarial report is more optimistic than the previous year's. The 1988 report indicates that, barring a sudden substantial drop in railroad employment, the system will not experience cash-flow problems during the next 20 years, but that the long-term stability of the system is still questionable in view of the continuing decline in rail employment.

Section 4. Railroad Unemployment Compensation System

The railroad unemployment compensation (RRUC) system has been in existence since 1938. Railroad workers were initially covered by the unemployment provisions of the Social Security Act of 1935. The Railroad Unemployment Insurance Act (Public Law 75–722) was passed in 1938 to provide a uniform unemployment insurance system for all railroad workers, regardless of the State in which they worked or lived. This was done largely because of administrative problems at that time in handling claims for railroad workers who earned wages in a number of different States and as a result of the railroad unions' desire that individuals throughout the industry be treated the same for purposes of unemployment compensation.

The Technical and Miscellaneous Revenue Act of 1988 (Public Law 100–647) increased the railroad unemployment and sickness daily benefit rate from $25 to $30 retroactively to July 1988, indexed future benefit rates and qualifying earnings requirements to national wage levels, established a waiting period for benefits, and improved the railroad unemployment insurance system's financing.

BENEFITS AND ELIGIBILITY REQUIREMENTS

A new benefit year for unemployment and sickness benefits begins every July 1. To qualify in the benefit years beginning July 1, 1988, and July 1, 1989, a worker must have base year railroad earnings of at least $1,500 in the preceding calendar year, not counting earnings over $600 per month. Under the indexing provisions of the new law reflecting growth in average national wages, a worker must have base year earnings of $1,775 in calendar year 1989, not counting earnings of more than $710 per month, to qualify in the benefit year beginning July 1, 1990. If the base year was the first year of railroad service, the worker must also have worked in 5 months of that year.

No benefits are payable for the first claims for unemployment and sickness in a benefit year. This generally results in a 2-week waiting period. A claimant is normally paid for days of unemployment or sickness over 4 in 14-day registration periods.

In order to receive a daily unemployment benefit, a worker must be able to work and be available for work. He must also register for work at a railroad unemployment office. However, during the benefit year which begins July 1, 1989, the Railroad Retirement Board plans to allow unemployment insurance applications and biweekly claim registrations to be filed by mail.

Until July 1989, the maximum daily benefit payable is $30; and, for biweekly claims, maximum benefits can total $300. In July 1989, the maximum daily benefit rate increases to $31 under the indexing rules reflecting the growth in average national wages. As a result of budget sequestration, unemployment and sickness benefits were reduced in parts of 1986, 1987 and 1988. The payments were later restored to previous levels with passage of budget legislation, and the 1987 and 1988 restorations were retroactive.

The program offers "normal" benefits and two categories of "extended" benefits. The duration of benefits varies by worker. Qualified workers can receive normal benefits for up to 130 days or 26 weeks, but the total may not exceed their creditable wages in the base year. Two groups of workers may get extended benefits:

(1) Workers with at least 15 years of railroad service may get up to 130 additional days, or up to an additional 26 weeks of benefits beyond the normal 26 weeks; and

(2) Workers with at least 10 but fewer than 15 years of railroad service may receive up to 65 additional days or 13 additional weeks.

TABLE 1.—PERMANENT BENEFITS UNDER THE RAILROAD UNEMPLOYMENT COMPENSATION PROGRAM AS OF DECEMBER 31, 1988

Qualifying wages:	
Base years 1987 and 1988	$1,500.00.
Base year 1989	$1,775.00.
Daily benefit rate:	
Basic rate	60 percent of daily rate of pay.
Maximum:	
Benefit year 1988–89	$30.00.
Benefit year 1989–90	$31.00.
Minimum guarantee	$12.70.
Maximum normal benefits:	
For 14 day period:	
Benefit year 1988–89	$300.00.
Benefit year 1989–90	$310.00.
For benefit year:	
Duration	130 compensable days.
Amount:[1]	
Benefit year 1988–89	$3,900.00.
Benefit year 1989–90	$4,030.00.
Maximum extended benefits:	
10–14 years' service:	
Duration	65 compensable days.
Amount:	
Benefit year 1988–89	$1,950.00.
Benefit year 1989–90	$2,015.00.
15 or more years' service:	
Duration	130 compensable days.
Amount:	
Benefit year 1988–89	$3,900.00.
Benefit year 1989–90	$4,030.00.

[1] Not to exceed the employee's taxable earnings in the base year counting earnings up to $775 a month.

Note.—Net sickness benefits are somewhat less than the above amounts since they are subject to tier I railroad retirement taxes.

Source: U.S. Railroad Retirement Board Handbook on Railroad Retirement and Unemployment Insurance Systems, January 1989.

The average duration of benefits fluctuates closely with the unemployment rate. In the 1940 through 1987 period, it ranged from 7.4 to 19.1 weeks and averaged 11.9 weeks.

In 1946, a program of cash sickness benefits was established for railroad workers as part of the unemployment compensation system. Sickness benefits are financed out of the same employer paid payroll taxes used to finance unemployment compensation benefits. A qualified railroad worker may receive sickness benefits if he files a "statement of sickness" signed by a doctor and mailed within 7 days of the first day for which a day of sickness is claimed.

A rail worker who is unemployed due to a strike legally authorized under the Railway Labor Act of 1926 can receive unemployment compensation benefits after a 14 day waiting period. Unemployment benefits cannot be paid to individuals participating in a strike that is in violation of the Railway Labor Act, and is therefore "illegal." Individuals who are unemployed due to an "illegal" strike, but who are not actually participating in the strike, are eligible for unemployment compensation benefits but are subject to the 14 day waiting period.

Total expenditures for unemployment and sickness payments were $111 million in benefit year 1987–88, which was 1.0 percent of total wages paid by the industry during the same period. This compares to a peak of 5.1 percent in 1959. It is also much lower than in benefit year 1983, a recession year, when the figure was 3.9 percent. Since the beginning of sickness benefits, unemployment benefits have composed about two-thirds of total payments. In 1988, unemployment benefits accounted for 78 percent of the total.

Benefit payments vary directly with the insured unemployment rate, covered employment, average weekly benefit amount, and average duration of benefits. The insured unemployment rate is the percentage of workers qualified under the RRUC program who drew benefits in a particular benefit year. The railroad insured unemployment rate has been high and volatile since the beginning of the RRUC program, averaging 14 percent. Since 1946 it has ranged from a relatively low 7 percent to 30 percent in benefit year 1982–83.

Changes in covered employment have short-run and long-run effects on the RRUC program. In the short run, when layoffs cause employment to decline, the insured unemployment rate and benefits paid increase. In the long run, when employers have fewer workers to layoff, benefits decline and the program shrinks. Since the peak of 1,680,000 workers in calendar year 1945, railroad employment declined to 303,000 in 1988. Two-thirds of this decline occurred in the 20 years between 1945 and 1965. In the 23 years since then, the remaining one-third of the decline occurred. In other words, the average annual decline through 1965 was 46,000, but after 1965 it was 20,000.

TAXES

The railroad unemployment and sickness benefit programs are financed by payroll taxes on railroad employers. The employees do not pay railroad unemployment taxes. Under the indexing provisions of the 1988 amendments, the taxable earnings base in calendar year 1989 increases from $600 to the first $710 of each employee's monthly earnings. The earnings base is indexed each year by a rate which is equal to approximately two-thirds of the annual rate of increase in the maximum base for railroad retirement tier I taxes. For 1989 and 1990, the contribution rate for all employers except certain public commuter railroads is 8 percent. The basic unemployment and sickness insurance tax rate paid by railroad employers will be experience rated for each employer in future years.

Experience-based tax rates will be phased in on a partial basis in 1991 and 1992, and become fully effective in 1993 with a maximum of 12 percent, or 12.5 percent if a maximum surcharge is in effect.

For 1989 and 1990, public commuter railroads covered by the Railroad Unemployment Insurance Act will be exempt from paying the 8 percent tax and will instead reimburse the unemployment insurance system for the amount of benefits paid during the year to their employees, plus certain administrative costs. Starting in 1991, those railroads will again pay taxes on the same basis as other railroads.

Railroad unemployment taxes are collected by the Railroad Retirement Board. Of each year's tax receipts, an amount equal to 0.65 percent of taxable payroll is set aside for administration. Excess funds allocated but not needed for administration are transferred to the Railroad Unemployment Insurance Account at the end of each fiscal year.

The Railroad Unemployment Insurance and Railroad Unemployment Insurance Administration Accounts are part of the Federal Unemployment Trust Fund. This trust fund has 53 State UC program accounts, 4 Federal accounts, and the 2 railroad accounts.

Since 1959, the railroad unemployment trust fund has been able to borrow funds from the railroad pension fund when employer taxes have not been sufficient to cover the costs of unemployment and sickness benefits. In the past, borrowed funds have been repaid. The RRUC program became depleted for the first time in 1960 after a long decline from peak reserves of nearly 18 percent of total annual wages in 1948. By 1963, it owed the retirement account $314 million, or 5.9 percent of total annual wages paid in the industry that year. The program gradually recovered during the 1960s until it had positive reserves again in 1974. Thereafter, the reserves were depleted again in 1976 through 1978, and 1981 through 1988.

A rapid decline in 1981 and 1982 in railroad employment resulted in substantial borrowing from the pension system. By the end of 1988, the RRUC program owed the railroad pension system approximately $600 million, about 5 percent of total wages projected to be paid in the industry that year. The debt was down from a peak level of over $850 million at the end of 1986.

Financial measures to assist the Railroad Unemployment Insurance Account were included in the Railroad Retirement Solvency Act enacted August 12, 1983.

The Solvency Act raised the taxable limit on monthly earnings and the base-year qualifying amount. The waiting period for benefits during strikes was increased from 7 to 14 days. A temporary repayment tax on railroad employers began July 1, 1986, to initiate repayment of the loans made by the Railroad Retirement Account.

The 1983 legislation also mandated the establishment of a Railroad Unemployment Compensation Committee to review the unemployment and sickness benefit programs and submit a report to Congress. The Committee reviewed all aspects of the railroad unemployment insurance system, in particular repayment of the system's debt to the Railroad Retirement Account, and the viability of transferring railroad unemployment benefit payments to State programs.

The Consolidated Omnibus Budget Reconciliation Act of April 1986 (Public Law 99-272) revised the 1983 law which had set a temporary unemployment insurance loan repayment tax beginning July 1, 1986, at a 2 percent rate with increases of 0.3 percent a year until 1990. The amended schedule required rates of 4.3 percent on wages up to $3,500 beginning July 1986, 4.7 percent in calendar year 1987 on wages up to $7,000, and 6 percent in 1988. This budget legislation also continued authority for borrowing by the Railroad Unemployment Insurance Account from the Railroad Retirement Account, but provided for an automatic unemployment insurance surtax on rail employers of 3.5 percent on annual wages up to $7,000 if further borrowing took place.

The 1988 Technical and Miscellaneous Revenue Act railroad unemployment insurance amendments were based on the recommendations of the Railroad Unemployment Compensation Committee. The 1988 amendments improved financing by indexing the tax base to average national wages and experience rating employer contributions. Repayment of the unemployment system's debt to the retirement system was assured by fixing the loan repayment tax at 4 percent in January 1989, remaining in force at that rate until the debt is fully repaid with interest. Under economic assumptions similar to Social Security actuaries II-B alternative, the debt will be fully repaid in 1997. The previous $7,000 annual base for this tax was changed to an indexed monthly base of $710 in January 1989.

The contingency surtax of 3.5 percent, effective in the event of further borrowing by the Railroad Unemployment Insurance Account, will be eliminated in 1991. Instead, a surcharge will be added to employers' unemployment insurance taxes for a calendar year if the balance in the unemployment insurance account on the previous June 30 goes below $100 million. The surcharge rate would be 1.5, 2.5, or 3.5 percent depending on how low the balance had fallen. If a 3.5 percent surcharge goes into effect for a given year, the maximum rate for any employer would be 12.5 percent rather than 12 percent. If the account balance on the preceding June 30 is above $250 million, the excess will be refunded to the employers in the form of a rate reduction for the year through a pooled credit.

The 1988 amendments also require the Board to make annual financial reports to Congress beginning July 1989 on the status of the unemployment insurance system and the Comptroller General will conduct a study of fraud and payment error in the unemployment program.

PART 3

BUDGET TABLES, DESCRIPTION OF FISCAL YEAR 1990 ADMINISTRATION BUDGET PROPOSALS, AND DESCRIPTION OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985

Section 1. Budget Tables

TABLE 1.—CBO AND OMB BASELINE ESTIMATES (CURRENT SERVICES)

[Fiscal year, in billions of dollars]

	1989	1990	1991	1992	1993	1994
Revenues:						
CBO	983	1,069	1,140	1,209	1,280	1,359
OMB	976	1,058	1,137	1,209	1,278	1,342
Outlays:						
CBO	1,142	1,215	1,287	1,348	1,416	1,489
OMB	1,136	1,185	1,238	1,278	1,315	1,350
Deficit or surplus:						
CBO	−159	−146	−146	−140	−135	−130
OMB	−160	−127	−102	−70	−37	−9
Deficit targets	−136	−100	−64	−28	0	(1)
	As a percentage of GNP					
Revenues:						
CBO	19.2	19.6	19.6	19.5	19.5	19.4
OMB	19.1	19.3	19.4	19.5	19.5	19.5
Outlays:						
CBO	22.3	22.3	22.1	21.8	21.5	21.2
OMB	22.2	21.6	21.2	20.6	20.1	19.6
Deficit or surplus:						
CBO	3.1	2.7	2.5	2.3	2.1	1.9
OMB	3.1	2.3	1.7	1.1	.6	.1

[1] The Balanced Budget and Deficit Control Reaffirmation Act sets targets only through fiscal year 1993.

Note: Totals include Social Security, which is off-budget.

Sources: Congressional Budget Office; Office of Management and Budget.

TABLE 2.—TRUST FUND SURPLUSES IN THE REVISED CBO BASELINE

[By fiscal year, in billions of dollars]

	1989	1990	1991	1992	1993	1994	Holdings, end of 1994
Social Security	56	68	79	90	103	117	618
Medicare	20	23	21	19	17	15	188
Military retirement	15	14	15	15	15	16	131
Civilian retirement [1]	21	21	23	25	26	28	343
Unemployment	9	7	6	4	3	3	68
Highway and airport	3	2	1	1	1	1	35
Other [2]	−1	1	0	0	0	−1	53
Total trust fund surplus	122	136	145	154	166	179	1,436
Federal funds deficit	−281	−282	−292	−294	−301	−309	
Total deficit	−159	−146	−146	−140	−135	−130	

[1] Civil service retirement, foreign service retirement, and several smaller retirement funds.

[2] Primarily railroad retirement, employees' health and life insurance, Superfund, various veterans' trust funds, FDIC, and the foreign military trust fund.

Source: Congressional Budget Office.

TABLE 3.—OUTLAYS FOR MAJOR SPENDING CATEGORIES FOR SELECTED YEARS AS A PERCENT OF BUDGET AND GNP, AND IN NOMINAL DOLLARS

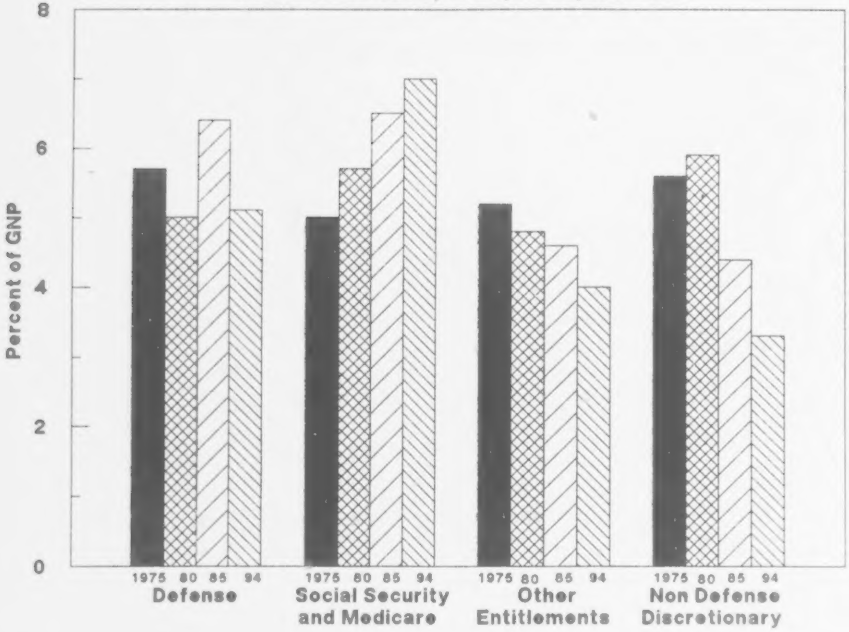
[By fiscal year]

	1965	1970	1975	1980	1985	1988	1990[1]	1994[1]
	As a percent of budget							
National defense	42.8	41.8	26.0	22.7	26.7	27.3	25.0	23.6
Social Security	14.4	15.0	19.0	19.8	19.7	20.4	20.3	21.4
Medicare		3.5	4.2	5.7	7.4	8.1	9.0	11.8
Other entitlements, and mandatories	14.8	15.3	23.6	21.5	19.2	18.6	18.8	18.6
Nondefense discretionary spending	27.5	23.0	25.7	26.5	18.6	16.5	16.9	15.7
Net interest	7.3	7.3	7.0	8.9	13.7	14.3	15.0	14.0
Offsetting receipts	−6.8	−6.0	−5.6	−5.1	−5.2	−5.2	−5.0	−5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	As a percent of GNP							
National defense	7.5	8.2	5.7	5.0	6.4	6.1	5.6	5.1
Social Security	2.5	3.0	4.1	4.4	4.7	4.5	4.5	4.5
Medicare		.7	.9	1.3	1.8	1.8	2.0	2.5
Other entitlements and mandatories	2.6	3.0	5.2	4.8	4.6	4.1	4.2	4.0
Nondefense discretionary spending	4.8	4.6	5.6	5.9	4.4	3.7	3.8	3.3
Net interest	1.3	1.5	1.5	2.0	3.3	3.2	3.3	2.9
Offsetting receipts	−1.2	−1.2	−1.2	−1.1	−1.3	−1.1	−1.2	−1.1
Total	17.6	19.8	21.8	22.1	23.9	22.3	22.2	21.1
	In nominal dollars (billions)							
National defense	50.6	81.7	86.5	134.0	252.7	290.4	303.4	352.0
Social Security	17.1	29.4	63.1	117.1	186.5	217.1	246.9	317.9
Medicare		6.8	14.1	33.9	69.8	85.7	109.6	175.1
Other entitlements and mandatories	17.5	30.0	76.5	127.1	181.5	198.3	228.8	277.2
Nondefense discretionary spending	32.5	45.1	85.3	156.6	175.8	175.7	205.3	234.1
Net interest	8.6	14.4	23.2	52.5	129.4	151.7	182.1	207.7
Offsetting receipts	−8.0	−11.6	−18.5	−30.3	−49.5	−54.9	−61.2	−75.4
Total	118.2	195.6	332.3	590.9	946.3	1064.1	1214.9	1488.7

[1] CBO baseline projections.

Source: For historical data, CBO, "The Economic and Budget Outlook: Fiscal Years 1990–1994." For 1990 and 1994 estimates, "An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990."

Chart 1. MAJOR SPENDING CATEGORIES AS A PERCENT OF GNP
Fiscal Years 1975, 1980, 1985, and 1994



Note: 1994 numbers are CBO baseline projections.

TABLE 4.—CBO BASELINE SPENDING PROJECTIONS, BY CATEGORY, 1988–94

[In nominal dollars, in billions]

	1988 actual	1989 base	Projections				
			1990	1991	1992	1993	1994
National defense	290.4	297	303	314	326	339	352
Social Security [1]	217.1	231	247	264	282	299	318
Medicare [1]	85.7	96	110	124	140	157	175
Other entitlements [1]	198.3	221	229	245	252	263	277
Nondefense discretionary	175.7	188	206	210	218	225	234
Net interest	151.7	169	182	193	199	204	208
Offsetting receipts	−54.9	−60	−61	−64	−68	−72	−76
Total	1,064.1	1,142	1,215	1,287	1,348	1,416	1,489
	As a percent of GNP						
National defense	6.1	5.8	5.6	5.4	5.3	5.1	5.0
Social Security [1]	4.5	4.5	4.5	4.5	4.6	4.5	4.5
Medicare [1]	1.8	1.9	2.0	2.1	2.3	2.4	2.5
Other entitlements [1]	4.1	4.3	4.2	4.2	4.1	4.0	4.0
Nondefense discretionary	3.7	3.7	3.8	3.6	3.5	3.4	3.3
Net interest	3.2	3.3	3.3	3.3	3.2	3.1	3.0
Offsetting receipts	−1.1	−1.2	−1.1	−1.1	−1.1	−1.1	−1.1
Total	22.3	22.3	22.3	22.1	21.8	21.5	21.2

Source: Congressional Budget Office.

TABLE 5.—FEDERAL REVENUES BY SOURCE AS A PERCENTAGE OF TOTAL REVENUES AND AS A PERCENTAGE OF GNP FOR FISCAL YEARS 1965, 1970, 1975, 1980, 1985, 1988, 1990, AND 1994

Revenue source by type of tax	Fiscal year—							
	1965	1970	1975	1980	1985	1988	1990 [1]	1994 [1]
Percent of revenues:								
Individual income	41.8	46.9	43.9	47.2	45.6	44.1	45.0	46.8
Corporate income	21.8	17.0	14.5	12.5	8.4	10.4	10.5	10.0
Social insurance	19.0	23.0	30.3	30.5	36.1	36.8	36.6	36.6
Excise	12.5	8.1	5.9	4.7	4.9	3.9	3.2	2.4
Estate and gift	2.3	1.9	1.7	1.2	.9	.8	.8	.6
Other	2.6	3.0	3.7	3.9	4.2	4.0	3.9	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percent of GNP:								
Individual income	7.3	9.1	8.0	9.1	8.5	8.4	8.8	9.1
Corporate income	3.8	3.3	2.7	2.4	1.6	2.0	2.1	1.9
Social insurance	3.3	4.5	5.6	5.9	6.7	7.0	7.2	7.1
Excise	2.2	1.6	1.1	.9	.9	.7	.6	.5
Estate and gift	.4	.4	.3	.2	.2	.2	.1	.1
Other	.4	.5	.6	.8	.8	.7	.8	.7
Total	17.4	19.5	18.3	19.4	18.6	19.0	19.6	19.4
In nominal dollars (billions):								
Individual income	48.8	90.4	122.4	244.1	334.5	401	481	636
Corporate income	25.5	32.8	40.6	64.6	61.3	94	112	136
Social insurance	22.2	44.4	84.5	157.8	265.2	334	391	497
Excise	14.6	15.7	16.6	24.3	36.0	36	34	32
Estate and gift	2.7	3.6	4.6	6.4	6.4	8	8	8
Other	3.0	5.8	10.4	19.9	30.6	36	42	49
Total revenues	116.8	192.8	279.1	517.1	734.1	909	1,069	1,359

[1] CBO Baseline projections.

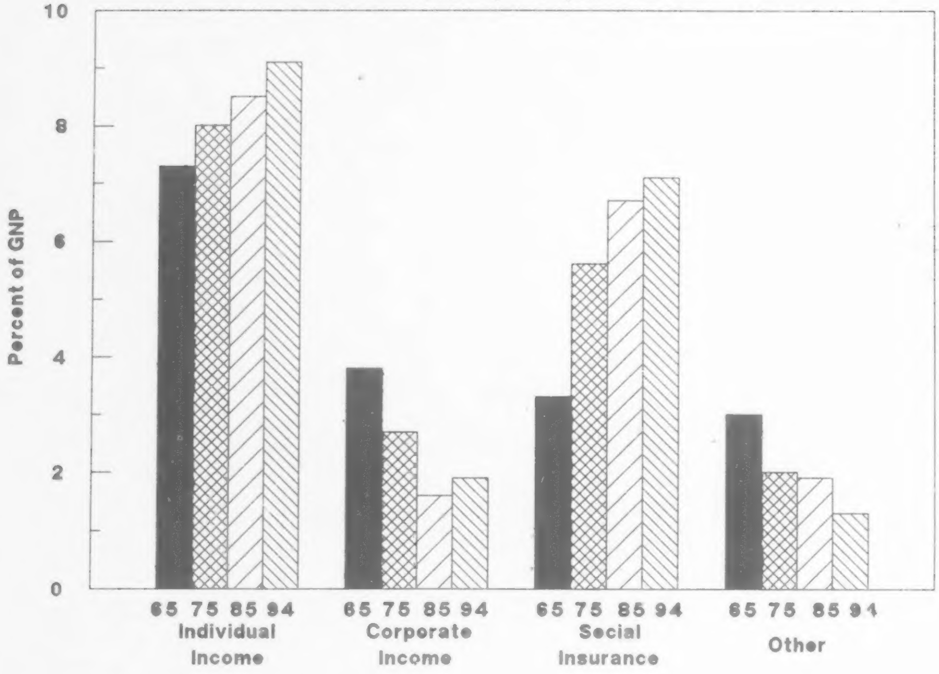
Note.—Columns may not add due to rounding.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1990–94."

CHART 2

FEDERAL REVENUES BY SOURCE AS A PERCENT OF GNP

Fiscal Years 1965, 1975, 1985, and 1994



Note: 1994 numbers are CBO baseline projections.

TABLE 6.—CBO BASELINE REVENUE PROJECTIONS BY SOURCE

[By fiscal year]

Major source	1988 actual	1989 base	Projections				
			1990	1991	1992	1993	1994
			In billions of dollars				
Individual income	401	433	481	520	558	596	636
Corporate income	94	103	112	120	125	129	136
Social insurance	334	365	391	417	441	468	497
Excise	36	34	34	32	31	32	32
Estate and gift	8	8	8	8	8	8	8
Customs duties	16	16	17	19	20	21	22
Miscellaneous	20	23	25	25	26	26	27
Total	909	983	1,069	1,140	1,209	1,280	1,359
			As a percentage of GNP				
Individual income	8.4	8.4	8.8	8.9	9.0	9.0	9.1
Corporate income	2.0	2.0	2.1	2.1	2.0	2.0	1.9
Social insurance	7.0	7.1	7.2	7.2	7.1	7.1	7.1
Excise	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Estate and gift	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Customs duties	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Miscellaneous	0.4	0.5	0.5	0.4	0.4	0.4	0.4
Total	19.0	19.2	19.6	19.6	19.5	19.5	19.4

Source: Congressional Budget Office.

TABLE 7.—COMPARISON OF INCOME TAXES AND PAYROLL TAXES BY FAMILY TYPE AND LEVEL OF FAMILY INCOME, 1990

[Number of families including single individuals, in thousands]

Family income level	Total	No income or payroll taxes	Income tax only	Payroll tax only	Payroll tax[1] greater than income tax	Payroll tax[1] equal to or less than income tax	Employee payroll tax [1] greater than income tax	Employee payroll tax [1] equal to or less than income tax
All families								
Less than $10,000	18,487	9,436	132	3,784	5,110	54	4,988	176
$10,000 to $20,000	19,911	3,908	1,510	1,182	12,841	509	7,703	5,647
$20,000 to $30,000	17,788	845	2,275	336	12,990	1,349	5,987	8,352
$30,000 to $40,000	13,180	61	1,597	32	8,901	2,592	3,143	8,350
$40,000 to $50,000	10,318	15	1,008	23	6,943	2,329	1,633	7,639
$50,000 to $75,000	13,876	12	869	9	7,444	5,543	1,091	11,896
$75,000 to $100,000	4,851	0	371	6	1,245	3,230	133	4,341
$100,000 or more	4,230	0	296	1	288	3,645	44	3,888
All incomes	102,641	14,277	8,058	5,373	55,760	19,250	24,722	50,288
Families with children								
Less than $10,000	5,023	1,911	30	446	2,660	4	2,647	17
$10,000 to $20,000	5,448	404	57	155	4,842	27	4,778	91
$20,000 to $30,000	5,795	83	102	82	5,342	190	4,339	1,194
$30,000 to $40,000	5,039	9	90	13	4,586	343	2,339	2,590
$40,000 to $50,000	4,576	5	39	13	4,067	453	1,241	3,279
$50,000 to $75,000	6,324	0	53	4	4,580	1,687	775	5,492
$75,000 to $100,000	2,106	0	16	3	685	1,403	95	1,993

TABLE 7.—COMPARISON OF INCOME TAXES AND PAYROLL TAXES BY FAMILY TYPE AND LEVEL OF FAMILY INCOME, 1990—Continued

[Number of families including single individuals, in thousands]

Family income level	Total	No income or payroll taxes	Income tax only	Payroll tax only	Payroll tax[1] greater than income tax	Payroll tax[1] equal to or less than income tax	Employee payroll tax[1] greater than income tax	Employee payroll tax[1] equal to or less than income tax
$100,000 or more	1,657	0	20	0	137	1,500	26	1,611
All incomes	35,968	2,412	406	717	26,898	5,608	16,240	16,266
	Elderly childless units							
Less than $10,000	5,397	5,090	2	296	7	3	7	3
$10,000 to $20,000	5,251	3,108	1,086	593	361	102	262	202
$20,000 to $30,000	3,610	678	1,721	197	616	400	295	721
$30,000 to $40,000	2,219	33	1,219	10	443	513	116	840
$40,000 to $50,000	1,438	4	760	6	215	454	33	636
$50,000 to $75,000	1,554	7	675	3	168	701	19	850
$75,000 to $100,000	648	0	298	1	31	317	3	345
$100,000 or more	632	0	245	0	14	373	0	387
All incomes	20,749	8,919	6,005	1,107	1,856	2,864	736	3,984

Other families

Less than $10,000	8,066	2,435	101	3,042	2,443	47	2,335	156
$10,000 to $20,000	9,212	395	366	434	7,637	380	2,663	5,354
$20,000 to $30,000	8,383	84	452	57	7,032	758	1,353	6,437
$30,000 to $40,000	5,922	19	288	8	3,872	1,735	687	4,920
$40,000 to $50,000	4,304	7	209	4	2,661	1,422	359	3,725
$50,000 to $75,000	5,998	5	141	2	2,695	3,154	297	5,553
$75,000 to $100,000	2,097	0	58	2	528	1,509	35	2,003
$100,000 or more	1,941	0	31	1	137	1,772	18	1,891
All incomes	45,924	2,946	1,646	3,550	27,006	10,778	7,746	30,038

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[1] Payroll tax means the Social Security payroll taxes. Column 4 is the number of units where the total (employer plus employee) payroll taxes exceed individual income taxes for those families with both payroll and income taxes. Column 6 is where employee payroll taxes exceed income taxes for those families with both payroll and income taxes.

Source: CBO tax model.

TABLE 8.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS FOR FISCAL YEARS 1988–94

[By fiscal year, in billions of dollars]

	1988 actual	1989	1990	1991	1992	1993	1994
Social Security (OASDI)	218.0	231.6	248.0	265.5	282.8	300.6	319.1
OASI	196.4	208.7	223.5	239.2	254.8	270.7	287.2
DI	21.6	22.9	24.6	26.2	28.0	29.9	31.9
Medicare	87.6	98.5	114.0	130.1	146.8	164.7	183.7
HI	52.7	58.8	66.3	73.3	80.7	88.5	96.5
SMI	34.8	39.8	47.7	56.0	64.5	73.7	84.2
Catastrophic Drug insurance	0.0	0.0	0.0	.8	1.6	2.4	3.1
Trade adjustment assistance	.2	.3	.2	.2	.2	.2	.2
Unemployment assistance	15.0	15.7	16.8	17.7	18.8	19.4	20.0
Family Support Administration [1]	10.8	11.4	12.1	12.8	13.1	14.1	15.0
Earned income tax credit (outlays only)	2.7	3.8	3.9	4.1	4.4	4.6	4.8
SSI	12.3	12.5	12.4	14.3	15.4	16.4	18.8
Social services (Title XX)	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Child welfare, foster care, adoption assistance	1.3	1.6	1.4	1.4	1.5	1.7	1.8
SMI premiums	8.8	10.5	11.3	12.1	12.9	13.7	14.5
Catastrophic premium	.0	1.2	1.8	2.7	3.6	4.1	4.6
Total	359.3	389.8	424.6	463.6	502.1	542.1	585.3

[1] Includes payments to States for AFDC work programs.

Source: Congressional Budget Office.

TABLE 9.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL GOVERNMENT OUTLAYS, IN NOMINAL DOLLARS AND AVERAGE ANNUAL GROWTH RATES FOR SELECTED YEARS

	Fiscal year					
	1970	1975	1980	1985	1990	1994
	In nominal dollars, in billions					
Social Security [1]	29.4	63.1	117.1	186.5	246.9	317.9
Medicare [1]	6.8	14.1	33.9	69.8	109.6	175.1
Unemployment compensation and trade adjustment assistance [1]	2.8	12.0	15.7	16.0	15.3	18.1
Public assistance and social services (Family Support Administration, SSI, Title XX, EITC, and Foster Care)	5.1	13.5	17.8	23.3	32.5	43.1
Other entitlement programs	22.0	53.1	93.6	142.2	181.0	216.1
Nondefense discretionary spending	45.1	85.3	156.6	175.8	205.5	234.3
National defense	81.7	86.5	134.0	252.7	303.4	352.0
Net interest	14.4	23.2	52.5	129.4	182.1	207.7
Offsetting receipts	−11.6	−18.5	−30.3	−49.5	−61.4	−75.6
Total	195.6	332.3	590.9	946.3	1,214.9	1,488.7

	Average Annual Growth Rates				
	1970–75	1975–80	1980–85	1985–90	1990–94
Social Security [1]	16.5	13.2	9.8	5.8	6.5
Medicare [1]	15.7	19.2	15.5	9.4	12.4
Unemployment compensation and trade adjustment assistance [1]	33.8	5.5	0.5	−0.9	4.3
Public assistance and social services (Family Support Administration, SSI, Title XX, EITC, and Foster Care)	21.5	5.7	5.5	6.9	7.3
Other entitlement programs	19.3	12.0	8.7	4.9	4.5
Nondefense discretionary spending	13.6	12.9	2.3	3.2	3.3
National defense	1.1	9.1	13.5	3.7	3.8
Net interest	10.0	17.7	19.8	7.1	3.3
Offsetting receipts	9.8	10.4	10.3	4.4	5.3
Total	11.2	12.2	9.9	5.1	5.2

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[1] Includes entitlement spending only.

Source: Congressional Budget Office.

TABLE 10.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL PROGRAM OUTLAYS IN PERCENTAGE TERMS FOR SELECTED YEARS

	1970	1975	1980	1985	1990 [1]	1994 [1]
Social Security (including medicare)	19.2	24.5	26.6	27.7	29.8	33.8
Unemployment compensation and trade adjustment assistance	1.7	4.1	2.8	1.9	1.4	1.3
Public assistance and social services (AFDC, SSI, title XX, EITC, low income energy assistance and child welfare programs)	2.6	4.2	3.1	2.5	2.6	2.8
Other entitlement programs	11.1	15.8	15.9	14.5	14.3	13.8
Nondefense discretionary spending	22.3	23.3	24.5	18.2	17.0	15.7
National defense	41.7	26.7	23.2	26.7	24.9	23.6
Net interest	7.4	7.2	9.1	13.7	15.0	14.0
Offsetting receipts	−6.0	−5.7	−5.3	−5.1	−5.0	−5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Ways and Means programs as percent of total Federal Government outlays, less interest	25.3	35.3	35.7	37.8	37.6	41.6

[1] Based on CBO baseline current law projections.

TABLE 11.—HISTORICAL OUTLAYS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING

[By fiscal years, in billions of dollars]

Category	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988
Means-tested programs:										
Medicaid	6.8	14.0	16.8	17.4	19.0	20.1	22.7	25.0	27.4	30.5
Food stamps [1]	4.6	9.1	11.3	11.0	12.7	12.4	12.5	12.4	12.4	13.1
Supplemental security income	4.8	6.4	7.2	7.7	8.7	8.5	9.6	10.3	10.9	12.3
Family support administration	5.1	7.3	8.2	8.0	8.4	8.9	9.2	9.9	10.5	10.8
Veteran's pensions	2.7	3.6	3.8	3.9	3.9	3.9	3.8	3.9	3.8	3.9
Child nutrition	1.5	3.4	3.4	3.0	3.3	3.5	3.7	3.8	4.0	4.3
Stafford loans [2]	.1	1.4	2.3	3.0	2.6	3.2	3.5	3.3	2.6	2.8
Earned income tax credit	0	1.3	1.3	1.2	1.2	1.2	1.1	1.4	7.4	2.7
Other [3]	.1	.1	.3	.3	.3	.5	.8	.9	.9	1.3
Total, means-tested programs	25.7	46.6	54.6	55.5	60.1	62.2	66.9	70.9	73.9	81.7
Non-means-tested programs:										
Social Security	63.1	117.1	138.0	154.1	168.6	176.1	186.5	196.7	205.2	217.1
Medicare	14.1	33.9	41.3	49.2	55.5	61.0	69.9	74.2	79.9	85.7
Subtotal	77.2	151.0	179.3	203.3	224.1	237.1	256.4	270.9	285.1	302.8
Other retirement and disability:										
Federal civilian [4]	7.4	15.5	18.6	20.6	22.1	23.3	24.6	25.0	27.6	30.4
Military	6.2	11.9	13.7	14.9	15.9	16.5	15.8	17.6	18.1	19.0
Other [5]	3.1	4.7	5.1	5.2	5.1	4.9	5.1	4.9	5.1	4.8
Subtotal	16.7	32.1	37.4	40.7	43.1	44.7	45.5	47.5	50.8	54.2
Unemployment compensation	12.8	16.9	18.3	22.2	29.7	16.8	15.8	16.1	17.1	13.6

TABLE 11.—HISTORICAL OUTLAYS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING—Continued

[By fiscal years, in billions of dollars]

Category	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988
Other programs:										
Veteran's benefits [6]	10.2	11.0	12.2	12.5	12.8	12.8	12.9	12.9	13.1	14.8
Farm price supports [3]	.7	2.8	4.1	11.8	19.1	7.8	18.1	26.2	22.7	12.5
General revenue sharing	6.1	6.8	5.1	4.6	4.6	4.6	4.6	5.1	0	0
Social services	2.9	3.7	3.9	3.4	3.4	4.4	3.5	4.0	4.1	4.2
Other [7]	3.4	7.3	6.0	3.5	2.1	4.4	14.1	1.8	7.3	17.4
Subtotal	23.3	31.6	31.3	35.8	42.0	34.0	53.2	50.0	47.2	48.9
Total, non-means-tested programs	130.0	231.6	266.3	302.0	338.9	332.6	370.9	384.5	400.2	419.5
Total outlays	155.8	278.2	321.0	357.5	399.0	394.8	437.8	455.4	474.1	501.2

[1] Includes nutrition assistance for Puerto Rico.

[2] Formerly known as Guaranteed Student Loans.

[3] Includes social services and special milk program.

[4] Includes Civil Service, Foreign Service, Coast Guard, and other retirement programs, and annuitants' health benefits.

[5] Includes general retirement and disability insurance (excluding social security).

[6] Includes veterans' compensation, readjustment benefits, life insurance, and housing projects.

[7] Includes a wide variety of programs. The growth between 1975 and 1980 is due in part to increases in energy programs, international financial programs, and health care services. The growth between 1984 and 1985 is mainly due to an increase in housing assistance.

TABLE 12.—COMPARISON OF AVERAGE ANNUAL GROWTH RATES FOR MAJOR ENTITLEMENT AND MANDATORY SPENDING PROGRAMS FOR SELECTED TIME PERIODS, BASED ON VARIOUS ADJUSTMENTS FOR INFLATION AND POPULATION GROWTH

Between years adjusted for	1975–88 [1]	1975–88 [2]	1975–88 [2] [3]	1975–81 [2] [3]	1981–87 [2] [3]	1981–87 [2] [4]
Means-tested programs:						
Medicaid	12.2	5.6	4.6	5.4	3.5	4.6
Food stamps [5]	8.4	2.0	1.0	5.3	−3.1	−2.4
SSI	7.5	1.2	0.2	−3.0	2.3	4.5
AFDC and CSE	5.9	−0.3	−1.3	−1.9	−0.6	−1.5
Veteran's pensions	2.9	−3.2	−4.1	−4.0	−4.6	−2.5
Child nutrition	8.4	2.1	1.0	3.9	−2.0	−1.1
Guaranteed student loans	29.2	21.6	20.4	52.9	−2.6	0.0
Other	25.9	18.5	17.3	29.5	0.4	0.4
Subtotal	9.3	2.9	1.8	2.8	0.3	1.1
Non-means-tested programs:						
Social Security	10.0	3.5	2.5	3.3	1.9	0.8
Medicare	14.9	8.1	7.1	8.4	6.5	5.3
Subtotal	11.1	4.6	3.5	4.3	3.1	1.9
Other retirement/disability:						
Federal civilian [6]	11.8	5.3	4.2	5.7	1.6	0.5
Military	9.0	2.6	1.6	3.5	−0.0	−1.2
Other	3.4	−2.7	−3.6	−1.5	−4.6	−5.7
Subtotal	9.6	3.2	2.2	3.6	−0.2	−0.9
Unemployment compensation	0.5	−5.4	−6.4	−3.8	−5.6	−3.0
Other programs:						
Veterans' benefits [7]	2.9	−3.1	−4.1	−6.6	−3.4	−4.6
Farm price supports	24.8	17.5	16.3	21.7	26.9	26.9
General revenue sharing	−100.0	−100.0	−100.0	−12.0	−100.0	−100.0
Social services	2.9	−3.2	−4.1	−4.7	−3.8	−3.8
Other	12.6	6.0	5.0	0.6	−0.3	−0.3
Subtotal	5.8	−0.4	−1.4	−4.5	2.3	2.3
Total, non-means-tested programs	9.4	3.0	2.0	2.2	2.1	2.1
Total outlays	9.4	3.0	1.9	2.3	1.8	1.8
Memo:						
Social Security, SSI, Veterans' pensions and benefits	9.0	2.6	1.6	1.7	1.5	NA
Food Stamps, AFDC, and Child Nutrition	7.4	1.1	0.0	2.1	−2.0	NA
Medicare and Medicaid	14.1	7.4	6.3	7.5	5.7	NA

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[1] Nominal growth.

[2] Adjusted for inflation (based on the CPI–U).

[3] Adjusted for overall population growth.

[4] Adjusted for population growth specific to each program category (e.g., Medicaid outlays adjusted for growth in the number of pre-transfer (means-tested) poor among the elderly and among families with children, Social Security and Medicare outlays adjusted for growth in the overall elderly population and AFDC outlays adjusted for growth in the number of pre-transfer (means-tested) poor among single parents with children).

[5] Includes nutrition assistance for Puerto Rico.

[6] Includes Coast Guard retirement.

[7] Includes veterans' compensation, readjustment benefits, life insurance, and housing projects.

TABLE 13.—INCREASES IN SPENDING: CBO BASELINE COMPARED TO ADJUSTMENTS MADE ONLY FOR PRICE AND POPULATION INCREASES, SELECTED FISCAL YEARS, 1980–94

	1980	1985	1990	1994	1994 baseline adjustments
Historical data or CBO Baseline Projections					
National defense	134.0	252.7	303.4	352.0	
Social security	117.1	186.5	246.9	317.9	
Medicare	33.9	69.8	109.6	175.1	
Medicaid	14.0	22.7	38.2	57.0	
AFDC, SSI, Food Stamps	22.8	31.3	39.4	51.9	
Other entitlements	90.4	127.5	151.2	168.4	
Nondefense discretionary	156.6	175.8	205.5	234.3	
Net interest	52.5	129.4	182.1	207.7	
Offsetting receipts	−30.3	−49.5	−61.4	−75.6	
Total	590.9	946.2	1,214.9	1,488.7	
Only Price and Population Adjustments Since 1980					
National defense	134.0	182.7	226.4	273.8	78.2
Social security	117.1	159.6	197.9	239.3	78.6
Medicare	33.9	46.2	57.3	69.3	105.8
Medicaid	14.0	19.1	23.7	28.6	28.4
AFDC, SSI, Food Stamps	22.8	31.1	38.5	46.6	5.3
Other entitlements	90.4	123.2	152.7	184.7	−16.3
Nondefense discretionary	156.6	213.5	264.6	320.0	−85.7
Net interest	52.5	71.6	88.7	107.3	100.4
Offsetting receipts	−30.3	−41.3	−51.2	−61.9	−13.7
Total	590.9	805.5	998.4	1,205.5	281.2
Only Price and Population Adjustments Since 1985					
National defense		252.7	313.2	378.8	−26.8
Social security		186.5	231.2	279.6	38.3
Medicare		69.8	86.5	104.6	70.5
Medicaid		22.7	28.1	34.0	23.0
AFDC, SSI, Food Stamps		31.3	38.8	46.9	5.0
Other entitlements		127.5	158.0	191.1	−22.7
Nondefense discretionary		175.8	217.9	263.5	−29.2
Net interest		129.4	160.4	194.0	13.7
Offsetting receipts		−49.5	−61.4	−74.2	−1.4
Total		946.2	1,172.7	1,418.4	70.3

Note: This table illustrates the increases in spending if government expenditures in major categories had been increased for prices and population. This table blindly assumes that spending should stay the same in real per capita terms. The methodology does not take into account medical price increases different from inflation, it does not account for defense policy needs nor for the fact that some programs serve populations growing faster than average. The price index chosen in this methodology is the GNP deflator. This table is primarily designed to illustrate which major spending programs are growing faster than prices and population and which categories are growing more slowly. If 1980 is chosen as a base year, defense spending would have grown to $274 billion in fiscal year 1994 compared to $352 billion in the revised CBO baseline.

Source: Committee staff, based on CBO projections.

TABLE 14.—SPENDING FOR FEDERAL PROGRAMS BENEFITING ELDERLY PEOPLE AND FAMILIES WITH CHILDREN

[In billions of dollars, fiscal year 1985] [1]

Program	Total	For elderly [2]	For families with children under age 18 [3]
Cash transfers:			
Social Security	184.1	[4,5] 140.0	[5] 19.6
Railroad retirement	6.2	4.9	.2
Supplemental security income	8.5	[6] 3.9	1.1
AFDC	8.5	—	[7] 8.5
Earned income tax credit	[8] 1.1	[9,10] .0	[10] 1.0
Unemployment compensation	16.0	.3	7.3
In-kind transfers:			
Food stamps [11]	11.6	[12] 1.0	[12] 9.4
Child nutrition [13]	5.3	—	[7,13] 5.3
Elderly feeding program	.1	[7] .1	—
Medicare	[14] 64.1	[12] 57.5	[12] 4.7
Medicaid	21.4	[12,15] 8.0	[12,15,16] 10.1
Housing assistance [17]	11.2	[18] 4.5	[18] 5.5
Low income home energy assistance program	2.1	[12] .6	[12] 1.0
Federal retirement and disability:			
Civilian	23.0	15.2	.8
Military	15.8	4.5	2.8
Veteran's benefits [19]	14.1	4.3	3.0
Education:			
Compensatory education	3.7	—	[20] 3.7
Impact aid	.7	—	[20] .7
Education for the handicapped	1.3	—	[20] 1.3
Other programs	1.7	—	[20] 1.7
Services and other aid:			
Child support enforcement	.6	—	[7] .6
Human development [21]	1.9	[22] .7	[22] 1.1
Family social services	.7	—	[7] .7
Work incentive program	.3	—	[7] .3
Total	404.0	[23] 245.5	[23] 90.4
Other programs for which spending could not be allocated to subgroups:			
Coal miners [24]	1.6	(*)	(*)
Veteran's health care	[25] 8.5	(*)	(*)
Social services block grant	2.7	(*)	(*)
Community services block grant	.4	(*)	(*)
Training and employment [26]	3.4	(*)	(*)
Community service for older Americans	.3	(*)	(*)
Total	16.9	(*)	(*)

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[1] Where available, spending values are outlays for benefits provided to recipients. When outlays were not available, obligations were used.

[2] Except where otherwise noted, elderly units are people age 65 or older, their spouses regardless of age, and any children under age 18 living with them. Benefits for elderly units with children will also be counted as benefits "For Families with Children Under Age 18."

[3] Except where otherwise noted, familes with children under age 18 are parents of children under age 18 and these children. Benefits for these units will also be counted as benefits "For Elderly" if one member is age 65 or over.

[4] Social Security spending for the elderly omits benefits for dependents under age 65, because program data do not separate dependents' benefits by age or primary beneficiary. Such benefits might have been as much as $10 billion in fiscal year 1985.

[5] Share derived from program data as of the end of calendar year 1983.

[6] Share derived from program data as of December 1984.

[7] Share assumed to be 100 percent due to eligibility criteria.

[8] Only the refundable portion of the earned income tax credit is considered. The tax expenditure portion, like all other tax expenditures, is omitted from the analysis.

[9] Less than $50 million.

[10] Share based on Congressional Budget Office simulations of earned income tax credit for calendar year 1984.

[11] Includes nutrition assistance for Puerto Rico. In fiscal year 1985, spending for this program was $0.8 billion.

[12] Recipient units for this item are defined as all related people living together, the Bureau of Census definition of families. These units may thus be larger than the nuclear families used generally in this analysis.

[13] Child nutrition includes school breakfast and lunches, special meal assistance, summer and child care feeding, special milk, the supplemental feeding program for women, infants, and children (WIC), and the commodity supplemental food program. Some benefits go to women who are pregnant with their first child.

[14] Excludes value of Supplemental Medical Insurance premiums; these totaled about $5.5 billion in fiscal year 1984.

[15] Share derived from program data for 1980 and from Current Population Survey data for calendar year 1984.

[16] Spending may be understated, due to lack of data for institutionalized recipients.

[17] Housing assistance includes Section 8, public and Indian housing, rent supplements, and Sections 235 and 236. Recipient units are all people sharing households. Units are elderly if at least one member is age 62 or over; units are considered families with children if at least one member is under age 18.

[18] Share estimated based on unpublished program data for fiscal year 1981.

[19] Veteran's benefits include veterans' pensions and compensation.

[20] Some benefits may go to families with children age 18 and over (and are students) and no children under age 18.

[21] Human Development includes Head Start, child abuse and family violence spending, programs for runaway and homeless youth, and Title III services and meals for the elderly.

[22] Share based on budgeted amounts for specific subprogram in fiscal year 1985.

[23] Totals for the elderly and for families with children include only those amounts for program spending that could be allocated by recipient type. Totals thus understate the amounts spent on two groups.

[24] Includes Special Benefits for Disabled Coal Miners and Black Lung Disability Benefits.

[25] Roughly one-third of beneficiaries are age 65 or older; costs for their care are higher than for nonelderly beneficiaries, but actual amounts are difficult to determine.

[26] Includes summer youth employment and training, dislocated worker assistance, Job Corps, veterans' employment, trade adjustment assistance, block grants to states, and programs for Native Americans and migrant and seasonal workers.

— No spending for this group, as a result of program rules.

(*) Unable to estimate share going to subgroups.

Note.—Except as noted, the shares of total outlays are based on Current Population Survey data for calendar year 1984.

Source: Budget of the United States Government, FY 1987; March 1985 Current Population Survey; Social Security Bulletin: Annual Statistical Supplement, 1984–85; Background Material and Data on Programs Within the Jurisdiction of the Committee on the Ways and Means, Committee Print WMCP: 99–2, February 22, 1985.

TABLE 15.—ESTIMATED FEDERAL PROGRAM EXPENDITURES TARGETED ON CHILDREN

[Fiscal years 1978 and 1987, obligations in billions of current and constant dollars]

Program expenditures	Fiscal year 1978		Fiscal year 1987		Percent change, constant dollars
	Current	Constant	Current	Constant	
Income programs:					
Aid for families with dependent children	6.360	9.620	10.120	9.010	−6
Child support enforcement	.040	.070	.330	.290	314
Earned income tax credit (refundable portion)	.880	1.330	1.410	1.250	−6
Social Security (OASI)	4.890	7.400	7.140	6.350	−14
Social Security (DI)	1.360	2.050	1.840	1.630	−20
Railroad retirement insurance	.100	.160	.100	.090	−44
Subtotal	13.630	20.620	20.930	18.620	−10
Nutrition programs:					
Child nutrition programs	2.700	4.080	4.330	3.850	−6
Food stamps	4.660	7.050	9.410	8.370	19
Commodity assistance for child nutrition programs	.680	1.030	.810	.720	−30
Special milk program	.160	.230	.020	.020	−91
Supplemental assistance for women, infants and children (WIC)	.430	.650	1.660	1.480	128
Other nutrition programs	.030	.040	.050	.050	25
Subtotal	8.650	13.080	16.280	14.490	11
Social service programs:					
Foster grandparent	.030	.050	.060	.050	0
Social services-grants to States (title XX)	.880	1.330	1.350	1.200	−10
Head Start	.620	.940	1.130	1.010	7
Juvenile Justice Program	.100	.150	.070	.060	−60

TABLE 15.—ESTIMATED FEDERAL PROGRAM EXPENDITURES TARGETED ON CHILDREN—Continued

[Fiscal years 1978 and 1987, obligations in billions of current and constant dollars]

Program expenditures	Fiscal year 1978		Fiscal year 1987		Percent change, constant dollars
	Current	Constant	Current	Constant	
Child welfare services (title IV–B)	.080	.120	.230	.200	67
Foster Care (title IV–E)	.210	.320	.720	.640	100
Adoption assistance (title IV–E)	NA	NA	.090	.080	
Other social service programs	.070	.110	.160	.150	36
Subtotal	2.000	3.020	3.790	3.380	12
Education programs:					
Vocational education	.950	1.440	.750	.670	–53
School improvement programs (chapter 2)	.460	.690	.920	.820	19
Indian education	.210	.320	.380	.330	3
Bilingual, immigrant and refugee education	.130	.200	.190	.170	–15
Education for the handicapped	.460	.690	1.560	1.390	101
Compensatory education (chapter 1)	2.760	4.170	3.990	3.550	–15
4–H (extension service)	.070	.100	.070	.060	–40
Other education programs	.010	.010	.040	.030	200
Subtotal	5.050	7.630	7.900	7.030	–8
Training and employment programs:					
Young Adult Conservation Corps (YACC)	.050	.080	.000	.000	–100
Youth community conservation and improvement projects	.110	.170	.000	.000	–100
Youth incentive entitlement projects (YIEPP)	.120	.170	.000	.000	–100
Training and employment services for disadvantaged youth	.530	.800	.570	.510	–36
Summer program for disadvantaged youth	.750	1.140	.640	.570	–50

Job Corps	.380	.570	.640	.570	0
Other training and employment programs	.020	.030	.000	.000	−100
Subtotal	1.960	2.960	1.850	1.650	−44
Health programs:					
Medicaid	1.719	2.600	3.361	2.990	15
Maternal and child health	.410	.610	.500	.440	−28
Immunization	.020	.030	.090	.080	167
NIH, research for mothers and children	.070	.110	.190	.170	55
Other health programs	.040	.070	.080	.080	14
Subtotal	2.260	3.420	4.220	3.750	10
Total program expenditures	33.540	50.740	54.980	48.920	−4

Note: Obligations converted to constant dollars using CPI–U. Totals may not add due to rounding.

Source: House Budget Committee.

See note at end of table 18.

TABLE 16.—ESTIMATED FEDERAL EXPENDITURES FOR PROGRAMS TARGETED ON THE ELDERLY

[Fiscal years 1978 and 1987, obligations in billions of current and constant dollars]

	Fiscal year 1978		Fiscal year 1987		Percent change, constant dollars
	Current	Constant	Current	Constant	
Income programs:					
Old age retirement insurance (Social Security)	56.810	85.940	138.810	123.500	44
Special benefits for persons aged 72+ (Social Security)	.150	.220	.040	.030	−86
Old age survivors' insurance (Social Security)	13.040	19.730	32.510	28.920	47
Railroad retirement	2.640	4.000	4.050	3.600	−10
Railroad survivors' insurance	.990	1.500	1.620	1.440	−4
Supplemental security income	1.740	2.630	2.170	1.930	−27
Subtotal	75.370	114.020	179.200	159.430	40
Nutrition programs:					
Elderly feeding program (food donation program)	.030	.050	.130	.120	140
Commodity supplemental food program	.000	.000	020	010	NA
Title III—Part C—nutrition services	.250	.380	.420	.380	0
Food stamps	.490	730	1.270	1.130	55
Subtotal	.770	1.160	1.840	1.640	41
Social services:					
Administration on aging	0.260	.390	.300	.270	−31
National institute on aging	.040	.050	.170	.150	200
Older Americans Volunteer Programs	.060	.090	.100	.090	0
Grants to States	NA	NA	.330	.290	NA
Other social services programs	.000	.000	.020	.020	NA
Subtotal	.360	.540	.920	.820	52
Education, employment and training programs:					
Senior Community Service Employment Program	.200	.300	.340	.300	0
Other education, employment and training program	.010	.020	.010	.010	−50

Subtotal	.220	.320	.350	.310	−3
Health programs:					
Medicare	19.030	28.790	66.990	59.600	107
Medicaid	3.530	5.340	8.930	7.940	49
Other Health Programs	.010	.010	.020	.010	0
Subtotal	22.560	34.140	75.940	67.550	98
Housing programs:					
Housing for the Elderly and Handicapped (Sec. 202)	.580	.870	.430	.390	−55
Mortgage Insurance-Rental Housing for the Elderly (Sec. 231)	.170	.260	.000	.000	−100
Weatherization Assistance	.020	.030	.050	.050	67
Loan Insurance for Nursing Homes (Sec. 252)	.110	.170	.210	.190	12
Subtotal	.880	1.340	.700	.620	−54
Total	100.160	151.520	258.950	230.380	52

Note: Obligations converted to constant dollars using CPI–U. Totals may not add due to rounding.

Source: House Budget Committee.

See note at end of table 18.

TABLE 17.—FEDERAL SPENDING FOR MAJOR PROGRAMS TARGETED ON CHILDREN: FISCAL YEARS 1973–93

[Outlays or payments in billion constant dollars]

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Aid for families with dependent children	9.3	9.1	9.5	10.1	10.0	9.9	9.1	8.6	8.7	8.3	8.3	8.4	8.3	8.9	9.0	8.9	8.8	9.0	9.4	8.7	9.4
Earned income tax credit	NA	NA	NA	1.8	2.0	1.8	1.5	2.5	2.2	1.8	1.6	1.5	1.4	1.8	1.7	3.2	4.1	4.2	4.3	4.4	4.4
Outlay	NA	NA	NA	1.4	1.5	1.3	1.1	1.6	1.5	1.3	1.2	1.2	1.0	1.3	1.3	2.3	3.1	3.1	3.2	3.2	3.2
Revenue loss	NA	NA	NA	.4	.6	.4	.4	.9	.7	.5	.4	.3	.3	.5	.5	.8	1.0	1.1	1.1	1.2	1.2
Social Security (OASDI)	7.5	8.2	8.5	9.1	9.4	9.5	9.3	9.2	9.4	9.2	8.9	8.6	8.3	8.2	8.0	7.1	7.1	7.0	7.0	7.0	7.0
Education for the handicapped	.1	.1	.1	.2	.2	.3	.6	1.0	1.2	1.2	1.1	.8	.9	1.5	1.0	1.4	1.5	1.5	1.5	1.5	1.5
Compensatory education (chapter 1)	4.0	3.3	4.0	3.7	3.6	4.0	4.1	4.2	3.8	3.1	2.7	3.0	3.9	3.1	2.9	3.4	3.5	3.5	3.5	3.5	3.5
Head Start	.9	.8	.8	.8	.8	.9	1.0	.9	.9	1.0	.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Child nutrition and special milk	1.5	1.6	2.9	3.3	4.5	4.0	4.2	4.4	4.0	3.2	3.3	3.5	3.5	3.5	3.6	3.7	3.8	3.9	4.0	4.0	4.1
Food stamps	4.1	4.6	7.1	8.2	7.3	7.0	6.8	9.1	9.8	9.2	10.2	9.3	8.9	8.8	8.6	8.8	8.4	8.8	8.9	8.9	9.1
Supplemental feeding programs (WIC and CSFP)	NA	NA	NA	.2	.4	.6	.8	.9	1.1	1.0	1.2	1.4	1.4	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.5
Medicaid	2.0	2.2	2.5	2.6	2.7	2.6	2.5	2.4	2.4	2.2	2.3	2.3	2.5	2.8	3.0	3.1	3.3	3.4	3.5	3.6	3.8
Total	29.3	29.9	35.5	41.6	42.9	42.4	41.4	45.8	45.7	41.9	42.1	41.2	41.5	42.9	42.1	45.2	47.0	48.0	48.8	48.5	49.7

Note: All data converted to constant dollars using the CPI–U. Data for fiscal year 1988 to fiscal year 1993 converted to constant dollars using OMB economic forecasts. Transition quarter excluded from data. Data may not sum due to rounding.

Source: House Budget Committee.

TABLE 18.—FEDERAL SPENDING FOR MAJOR PROGRAMS TARGETED ON THE ELDERLY: FISCAL YEARS 1973–93

[Outlays or payments in billions of dollars]

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Social Security	80.6	85.3	89.4	94.9	102.0	105.9	108.9	113.0	122.5	130.5	138.8	141.2	145.2	149.9	152.5	155.2	156.6	161.0	165.0	168.2	171.5
Old age insurance	66.2	68.7	72.2	76.9	82.7	85.9	88.5	91.7	99.6	106.1	113.2	115.0	118.1	121.5	123.5	125.6	126.4	130.0	133.2	202.5	138.5
Survivors' insurance	14.3	16.1	16.7	17.7	19.0	19.7	20.2	21.2	22.8	24.3	25.5	26.2	27.1	28.3	28.9	29.6	30.1	31.0	31.7	32.4	33.0
Special benefits	.6	.5	.4	.3	.3	.2	.2	.1	.1	.1	.1	.1	.1	0	0	0	0	0	0	0	0
Railroad retirement	4.5	4.5	4.7	5.1	5.2	5.5	5.9	5.1	5.1	5.2	5.3	5.2	5.4	5.0	5.1	5.0	4.8	4.7	4.6	4.4	4.3
Old age	3.3	3.3	3.4	3.6	3.7	4.0	3.6	3.6	3.6	3.7	3.7	3.6	3.9	3.6	3.6	3.5	3.4	3.3	3.3	3.2	3.1
Survivors' insurance	1.1	1.2	1.3	1.5	1.5	1.5	2.3	1.5	1.5	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.2
Supplemental security income	NA	1.7	3.2	3.0	2.8	2.6	2.4	2.2	2.2	2.1	2.0	2.1	2.0	2.0	1.9	1.9	1.9	1.7	1.9	1.8	1.8
Medicare	17.0	16.4	20.3	23.0	26.3	28.8	30.6	33.5	35.7	40.4	45.1	47.7	52.8	55.2	59.6	60.6	62.9	67.5	75.3	81.2	87.7
Medicaid	3.9	4.3	4.5	4.8	5.0	5.3	5.5	6.2	6.3	6.1	6.6	6.9	7.3	7.6	7.9	8.2	8.6	9.2	9.8	10.6	11.5
Total	106.0	112.2	122.0	130.8	141.2	148.1	153.3	160.0	171.8	184.4	197.8	203.0	212.8	282.1	227.0	230.9	234.9	312.5	256.6	266.3	276.8

Note: All data converted to constant dollars using the CPI–U. Data for fiscal year 1988 to fiscal year 1993 converted to constant dollars using OMB economic forecasts. Transition quarter excluded from data. Data may not sum due to rounding.

Source: House Budget Committee.

[1] Includes Nutrition Assistance for Puerto Rico. [2] Includes payments to states for AFDC work programs. [3] Formerly known as Guaranteed Student Loans. [4] Includes Social Services and Special Milk program. [5] Includes Civil Service, Foreign Service, Coast Guard, and other retirement programs, and annuitants' health benefits. [6] Includes general retirement and disability insurance (excluding Social Security). [7] Includes veterans compensation, readjustment benefits, life insurance, and housing programs. [8] Includes a wide variety of programs.

NOTES TO TABLES 15–18

These tables were prepared by the Minority staff of the House Budget Committee. The tables focus on Federal expenditures for programs targeted explicitly on children under age 18 or on the elderly (i.e., someone over age 65). Many Federal programs provide services or benefits to all types of families. Wherever possible, administrative data was used to determine what percentage of expenditures went to children versus the elderly. Sometimes these percentages are unknown. For example, the amount of title XX (Social Services Block Grant) targeted on children had to be estimated on the basis of an incomplete survey of participating States. Nevertheless, the data in these tables are probably the best estimates available of how Federal spending on children versus the elderly has changed over time.

Tables 17 and 18: Utilize budget obligations as the measure of Federal spending. Budget obligations are defined as commitments to pay out money by Federal departments and agencies.

All data are in constant dollars. Nominal data were adjusted for inflation using the CPI–U with an average of fiscal years 1982, 1983, and 1984 as the base year. These tables express expenditures in both nominal and constant dollars.

Table 17: A number of programs were excluded for failing to meet the criteria of programs explicitly targeted on children. First, programs which were not targeted on children but which provided sustantial assistance to children were excluded. For example, housing assistance was excluded even though low-income housing assistance programs, which are not explicitly targeted on children, nevertheless provide a large amount of assistance to families with children.

Second, State and local expenditures were excluded even though they contribute a large proportion of total government spending in such areas as education, social services and income support. State and local funds for education, for example, are excluded, even though Federal spending has remained quite minimal at only 7 percent of the total. Similarly, the sizable State/local expenditures required under Federal law for AFDC and Medicaid are not included nor are the amounts voluntarily provided by States to supplement such programs as Supplemental Security Income.

Third, Federal spending directly targeted on children of present and former employees was excluded on the grounds that the benefits were essentially operating costs analogous to employee benefits. Thus, large programs such as educational impact aid and benefits paid to survivors of Federal employees are excluded.

Finally, because the focus is on children under age 18, Federal spending for higher education is excluded.

Table 18: The focus of Table 18 is on *Federal expenditures for programs explicitly targeted on the elderly.* First, a number of programs were excluded which are not specifically targeted on the elderly, such as public housing.

Second, State and local expenditures were excluded even though they account for a large proportion of spending in such areas as social services and health care.

Third, Federal spending on retired Government employees was excluded on the grounds that the benefits were essentially operating costs analogous to employee benefits. Consequently, payments to Federal military and civilian retirement systems were excluded.

Fourth, Federal spending for the Pension Benefit Guaranty Corporation was excluded on the basis that this quasi-public agency is self-financed and essentially autonomous.

TABLE 19.—CBO REVISED BASELINE PROJECTIONS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING CATEGORIES

[By fiscal year, in billions of dollars]

Category	1988 actual	1989 base	Projections				
			1990	1991	1992	1993	1994
Means-Tested Programs							
Medicaid	30.5	34.2	38.2	42.5	47.0	51.7	57.0
Food stamps [1]	13.1	13.7	14.9	15.7	16.3	17.3	18.1
Supplemental security income	12.3	12.5	12.4	14.3	15.4	16.4	18.8
Family Support Administration [2]	10.8	11.4	12.1	12.8	13.1	14.1	15.0
Veterans' pensions	3.9	3.9	3.8	4.0	3.9	3.9	3.8
Child nutrition	4.3	4.6	4.9	5.3	5.6	6.0	6.3
Earned income tax credit	2.7	3.8	3.9	4.1	4.4	4.6	4.8
Stafford loans [3]	2.8	3.4	3.7	3.6	3.6	3.6	3.5
Other [4]	1.3	1.6	1.4	1.4	1.6	1.7	1.8
Total, means-tested programs	81.7	89.0	95.4	103.8	110.8	119.3	129.2
Non-Means-Tested Programs							
Social Security	217.1	230.6	246.9	264.3	281.7	299.4	317.9
Medicare	85.7	96.3	109.6	124.0	139.9	157.0	175.1
Subtotal	302.8	326.9	356.5	388.3	421.5	456.4	493.0
Other retirement and disability:							
Federal civilian [5]	30.3	32.6	36.3	39.0	42.2	45.6	49.2
Military	19.0	20.1	21.4	22.8	24.3	25.7	27.3
Other [6]	4.8	5.1	5.1	5.3	5.5	5.6	5.8
Subtotal	54.2	57.9	62.8	67.1	71.9	76.9	82.2
Unemployment compensation	13.6	14.2	15.1	15.9	16.9	17.4	17.9
Other programs:							
Veterans benefits [7]	14.8	14.7	14.8	15.7	16.2	16.6	17.1
Farm price supports	12.5	13.3	11.3	11.5	9.4	7.4	5.9
Deposit insurance	10.2	17.1	11.8	13.0	8.2	7.8	6.8
Social services	4.2	4.9	5.3	5.4	5.1	4.7	4.7
Other [8]	7.2	10.2	12.3	12.4	12.9	13.0	13.2
Subtotal	48.9	60.3	55.6	57.9	51.9	49.6	47.9
Total, non-means tested programs	419.5	459.3	490.0	529.2	562.2	600.3	641.0
Total outlays	501.2	548.3	585.3	633.0	673.1	719.6	770.2

[1] Includes Nutrition Assistance for Puerto Rico.

[2] Includes payments to states for AFDC work programs.

[3] Formerly known as Guaranteed Student Loans.

[4] Includes Social Services and Special Milk program.

[5] Includes Civil Service, Foreign Service, Coast Guard, and other retirement programs, and annuitants' health benefits.

[6] Includes general retirement and disability insurance (excluding Social Security).

[7] Includes veterans compensation, readjustment benefits, life insurance, and housing programs.

[8] Includes a wide variety of programs.

TABLE 20.—ALTERNATIVE BUDGET PROJECTIONS TO THE YEAR 2000

[By fiscal year, as percents of GNP]

Category	Path 1			Path 2			Path 3		
	1989	1993	2000	1989	1993	2000	1989	1993	2000
National defense	5.9	5.3	4.4	5.9	5.3	5.3	5.9	5.5	5.5
Nondefense discretionary	3.8	3.4	2.7	3.8	3.4	3.4	3.8	3.9	3.9
Entitlements									
Social Security [1]	4.6	4.6	4.4	4.6	4.6	4.4	4.6	4.6	4.4
Medicare and Medicaid	2.6	3.1	4.1	2.6	3.1	4.1	2.6	3.1	4.1
Other retirement and disability [2]	1.7	1.6	1.5	1.7	1.6	1.5	1.7	1.6	1.5
Other	1.8	1.3	1.0	1.8	1.3	1.0	1.8	1.3	1.0
Subtotal	10.7	10.6	11.0	10.7	10.6	11.0	10.7	10.6	11.0
Net interest	3.3	3.2	2.2	3.3	3.2	2.6	3.3	3.3	3.0
Offsetting receipts	−1.2	−1.1	−1.1	−1.2	−1.1	−1.1	−1.2	−1.1	−1.1
Outlays	22.7	21.5	19.2	22.7	21.5	21.3	22.7	22.3	22.3
Revenues	19.1	19.4	19.4	19.1	19.4	19.4	19.1	19.4	19.4
Deficit	−3.6	−2.1	.2	−3.6	−2.1	−1.9	−3.5	−2.8	−2.9

[1] Includes general fund payments to Social Security for military service wage credits, special age-72 benefits, self-employment tax credits, and income taxes on benefits.

[2] Includes Federal civilian and military retirement and disability, black lung benefits, railroad retirement, supplemental security income, and veterans' compensation and pensions.

Note: The three budget paths differ only with respect to the assumptions about defense and nondefense discretionary appropriations. As a result, debt service costs are also different. For Path 1, funding for discretionary programs reflects adjustments for inflation but provides for no real growth; that is, it continues CBO's baseline projections methodology. Discretionary spending in Path 2 is increased so as to maintain defense and nondefense programs at their 1993 shares of GNP over the 1994–2000 period. Finally, Path 3 holds discretionary programs, not at their 1993 shares of GNP, but rather at their higher 1989 shares, using the budget authority figures specified in last year's budget summit agreement. After 1989, budget authority for both defense and nondefense discretionary programs is assumed to grow by about 2½ percent per year in real terms. Defense outlays continue to decline as a share of GNP for several years, however, because appropriations for fiscal years 1986 through 1988 (and, by assumption, 1989) grew less than inflation.

Source: Congressional Budget Office, statement of Paul Van de Water before the Subcommittee on Social Security and Family Policy, Senate Committee on Finance, May 13, 1988.

TABLE 21.—COMPARISON OF BUSH ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS, 1989–94

[By calendar year]

	Estimated	Forecast		Projected			
	1988	1989	1990	1991	1992	1993	1994
Nominal GNP (billions of dollars):							
Administration	4,860	5,219	5,577	5,947	6,304	6,648	NA
CBO	4,859	5,209	5,542	5,902	6,281	6,685	7,117
Real GNP (percent change, year over year):							
Administration	3.8	3.3	3.2	3.3	3.2	3.2	3.2
CBO	3.8	2.9	2.1	2.2	2.2	2.3	2.3
Consumer Price Index [1] (percent change, year over year):							
Administration	4.0	3.8	3.7	3.2	2.7	2.2	1.7
CBO	4.0	4.9	4.9	4.6	4.4	4.4	4.4
GNP deflator (percent change, year over year):							
Administration	3.4	4.0	3.6	3.2	2.7	2.2	1.7
CBO	3.4	4.2	4.2	4.2	4.1	4.1	4.1
3-month Treasury bill rate (percent):							
Administration	6.7	7.4	5.5	4.5	4.0	3.5	3.0
CBO	6.7	7.9	7.1	6.7	6.4	6.1	5.9
10-year Government note rate (percent):							
Administration	8.9	8.6	7.2	6.0	5.0	4.5	4.0
CBO	8.9	9.3	9.0	8.6	8.1	7.7	7.4
Unemployment rate: [2]							
Administration	5.4	5.2	5.1	5.0	5.0	5.0	5.0
CBO	5.5	5.5	5.5	5.5	5.6	5.6	5.6
Tax bases, wage and salary disbursements:							
Administration	2,436	2,609	2,783	2,973	3,163	3,347	NA
CBO	2,435	2,615	2,787	2,969	3,163	3,370	3,590
Other personal income: [3]							
Administration	1,625	1,724	1,856	1,958	2,045	2,121	NA
CBO	1,626	1,754	1,870	1,977	2,090	2,211	2,346
Corporate profits: [4]							
Administration	302	352	399	442	475	499	NA
CBO	299	328	351	378	390	401	424

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[1] Consumer Price Index for urban wage and clerical workers.

[2] The Administration's projection is for the total labor force, including armed forces residing in the United States, while the CBO projection is for the civilian labor force excluding armed forces. In recent years, the unemployment rate for the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian labor force alone.

[3] Other personal income is personal income less wage and salary disbursements.

[4] Corporate profits reported are book, not economic, profits.

Sources: Congressional Budget Office; Office of Management and Budget.

TABLE 22.—COMPARISON OF BUSH ADMINISTRATION, CBO, AND BLUE CHIP SHORT-RUN ECONOMIC FORECASTS

	Actual 1988	Forecast	
		1989	1990
Fourth quarter to fourth quarter (percent change)			
Real GNP:			
Administration	2.6	3.5	3.4
CBO	2.6	2.9	2.2
Blue Chip	2.7	2.4	1.8
Nominal GNP:			
Administration	6.8	7.3	7.0
CBO	6.7	6.9	6.6
Blue Chip	6.9	6.8	6.2
Consumer Price Index: [1]			
Administration	4.2	3.6	3.5
CBO	4.3	5.0	4.8
Blue Chip	4.2	4.7	4.7
Calendar-year averages (percent)			
3-month Treasury bill rate:			
Administration	6.7	7.4	5.5
CBO	6.7	7.9	7.1
Blue Chip	6.7	8.1	7.5
10-year government note rate:			
Administration	8.9	8.6	7.2
CBO	8.9	9.3	9.0
Blue Chip [2]	8.9	8.9	8.5
Civilian unemployment rate:			
Administration [3]	5.4	5.2	5.1
CBO	5.5	5.5	5.5
Blue Chip	5.5	5.4	5.6

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[1] Consumer Price Index for urban wage earners and clerical workers.

[2] Blue Chip does not project a 10-year note rate. The values shown here are based on the Blue Chip projection of the AAA bond rate, adjusted by CBO to reflect the estimated spread between AAA bonds and 10-year government notes.

[3] The Administration's projection is for the total labor force, including armed forces residing in the United States, while the CBO and Blue Chip projections are for the civilian labor force excluding armed forces. In recent years, the unemployment rate for the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian labor force alone.

Source: Congressional Budget Office; Office of Management and Budget; Eggert Economic Enterprises, Inc., Blue Chip Economic Indicators (February 10, 1989). The CBO forecast is based on preliminary 1988 fourth-quarter data published in January 1989.

TABLE 23.—EFFECTS ON CBO BASELINE BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

	1989	1990	1991	1992	1993	1994
Real growth: Effect of 1-percentage-point lower annual rate beginning January 1989:						
Change in revenues	−6	−20	−39	−59	−79	−102
Change in outlays	1	4	8	14	2	32
Change in deficit	7	24	48	73	101	134
Unemployment: Effect of 1-percentage-point higher annual rate beginning January 1989:						
Change in revenues	−25	−41	−44	−46	−47	−50
Change in outlays	4	8	13	18	23	28
Change in deficit	29	49	57	64	70	77
Inflation: Effect of 1-percentage-point higher annual rate beginning January 1989:						
Change in revenues	5	17	31	45	63	81
Change in outlays	4	16	29	43	58	74
Change in deficit	−2	−1	−2	−1	−5	−8
Interest rates: Effect of 1-percentage-point higher annual rates beginning January 1989, all maturities:						
Change in revenues						
Change in outlays	3	11	16	20	24	29
Change in deficit	3	11	16	20	24	29
Interest rates: Effect of 1-percentage-point higher annual rates beginning January 1989, medium-and long-term maturities only:						
Change in revenues						
Change in outlays	1	5	9	13	16	20
Change in deficit	1	5	9	13	16	20

Source: Congressional Budget Office.

TABLE 24.—COMPARISON OF CBO AND OMB ESTIMATES OF THE REAGAN ADMINISTRATION'S BUDGET PROGRAM

[Fiscal year, in billions of dollars]

	1989	1990	1991	1992	1993	1994
Revenues:						
CBO	983	1,070	1,143	1,211	1,283	1,361
OMB	976	1,059	1,140	1,212	1,281	1,345
Outlays:						
CBO	1,143	1,190	1,251	1,306	1,363	1,426
OMB	1,137	1,152	1,207	1,244	1,279	1,312
Deficit or surplus:						
CBO	−160	−120	−108	−94	−80	−65
OMB	−161	−93	−67	−32	2	33
Deficit targets	−136	−100	−64	−28	0	....

Note: Totals include Social Security, which is off-budget.

Sources: Congressional Budget Office; Office of Management and Budget.

TABLE 25.—OMB ESTIMATES OF REAGAN ADMINISTRATION PROPOSED BUDGET CHANGES

[By fiscal year, in billions]

	1990	1991	1992	1993	1994
Defense spending	+2.1	+5.5	+7.5	+11.0	+14.9
Nondefense discretionary (net)	−4.3	−5.7	−7.2	−7.6	−9.5
Total program increases	(3.5)	(6.0)	(9.7)	(9.9)	(11.1)
Total program reductions	(−7.8)	(−11.7)	(−16.9)	(−17.5)	(−20.6)
Entitlements	−18.0	−23.1	−26.9	−30.6	−35.1
Medicare	(−4.9)	(−8.0)	(−10.6)	(−13.4)	(−16.5)
Medicaid	(−1.7)	(−2.3)	(−2.8)	(−2.9)	(−3.1)
Other heatlh	(−1.2)	(−1.4)	(−1.5)	(−1.6)	(−1.8)
Federal retiree COLA reductions	(−1.4)	(−2.3)	(−2.9)	(−3.4)	(−3.6)
Eliminate Federal retiree lump-sum payments	(−2.1)	(−2.2)	(−2.4)	(−2.5)	(−2.7)
Farm price and income support	(−2.0)	(−1.9)	(−2.5)	(−2.5)	(−2.5)
School lunch	(−.8)	(−1.0)	(−1.1)	(−1.2)	(−1.2)
End trade adjustment assistance	(−.2)	(−.3)	(−.3)	(−.3)	(−.2)
Other	(−3.7)	(−3.7)	(−2.8)	(−2.8)	(−3.5)
Revenues (effect on deficit)	−13.1	−8.6	−6.3	−6.3	−5.4
Government receipts, including taxes	(−1.8)	(−3.8)	(−3.6)	(−3.3)	(−3.2)
User fees and offsetting collections	(−5.5)	(−2.9)	(−1.4)	(−2.9)	(−2.1)
Asset sales (net of lost receipts)	(−5.9)	(−1.9)	(−1.4)	(−.1)	(−.1)
Total policy changes (net)	−33.3	−31.9	−32.9	−33.5	−35.1
Debt service savings	−1.2	−2.9	−4.5	−5.8	−6.9
Total deficit reduction	−34.4	−34.8	−37.4	−39.3	−42.0

Note: Sign indicates the effect on the deficit. Thus, revenue increases are shown as minuses. Also, detail may not add to totals due to rounding. ( ) indicates part of a subtotal.

Source: OMB, House Budget Committee, and Committee staff.

TABLE 26.—CBO ESTIMATES OF THE REAGAN ADMINISTRATION PROPOSED BUDGET CHANGES

[By fiscal year, in billions of dollars]

Budget area	1990	1991	1992	1993	1994
Defense spending	3.0	4.0	3.8	5.2	8.0
Nondefense discretionary (net)	−4.9	−9.8	−14.1	−18.9	−25.4
Total program increases	1.2	2.7	3.8	4.5	5.0
Total program decreases	−6.1	−12.5	−17.9	−23.4	−30.4
Entitlements	−17.0	−21.6	−24.6	−26.6	−28.8
Medicare	−4.8	−6.4	−7.9	−9.0	−10.2
Medicaid	−1.6	−2.3	−2.7	−2.9	−3.2
Other Health (FEHB reform)	−1.3	−1.6	−1.7	−2.0	−2.3
Federal retiree COLA reductions	−1.9	−2.9	−3.5	−4.2	−5.0
Eliminate Federal retiree lump-sum payments	−1.6	−1.7	−1.7	−1.7	−1.7
Farm price and income support	−2.1	−2.2	−1.8	−1.5	−.9
School Lunch	−.9	−1.1	−1.2	−1.3	−1.3
End trade adjustment assistance	−.2	−.3	−.3	−.3	−.3
Other	−2.6	−3.1	−3.7	−3.7	−3.9
Revenues (effect on deficit)	−6.6	−7.2	−3.4	−3.7	−3.6
Government receipts, including taxes	−1.4	−3.1	−2.8	−2.5	−2.4
User fees and offsetting collections	−.8	−2.6	−.3	−1.9	−1.9
Asset sales (net of lost receipts)	−4.4	−1.5	−.3	−.7	−.7
Total policy changes (net)	−25.5	−34.6	−38.4	−44.0	−49.9
Debt service savings	−1.0	−3.7	−7.1	−10.9	−15.1
Total deficit reduction	−26.5	−38.3	−45.5	−54.9	−65.0

TABLE 27.—OMB ESTIMATES OF THE REAGAN ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[Preliminary estimates, by fiscal years, savings in millions]

	1990	1991	1992	1993	1994	1990–94
OUTLAYS						
Medicare (legislative)						
Part A:						
Current law extensions: Hospital capital at 85 percent	−930	−1,190	−1,300	−1,420	−1,530	−6,370
Legislative proposals:						
Reduce hospital capital to 75 percent	−620	−780	−880	−940	−1,020	−4,240
Reduce indirect medical education to 4.05 percent	−1,020	−1,290	−1,410	−1,540	−1,660	−6,920
PPS Update factor of MB—1.5 percent	−625	−800	−875	−955	−1,040	−4,295
Graduate medical education reductions (HI)	−120	−130	−135	−140	−150	−675
Catastrophic Health Insurance impact	−11	−22	−24	−25	−31	−113
Subtotal: Part A	−3,326	−4,212	−4,624	−5,020	−5,431	−22,613
Part B:						
Current law extensions: Clinical labs—keep 100 percent caps	−190	−330	−410	−480	−560	−1,970
Legislative proposals:						
Freeze MEI for nonprimary care physicians	−375	−960	−1,640	−2,085	−2,400	−7,460
Overpriced procedures	−100	−180	−210	−240	−270	−1,000
Reduce radiology/anesthesiology/surgery payments by 8 percent	−250	−430	−510	−570	−640	−2,400
New physician customary charges	−40	−110	−150	−190	−220	−710
Concurrent anesthesia	−15	−20	−30	−30	−30	−125
Designated specialities	−15	−25	−30	−35	−40	−145
Graduate medical education reductions (SMI)	−30	−30	−35	−40	−40	−175
Reduce outpatient hospital	0	−220	−520	−780	−940	−2,460

TABLE 27.—OMB ESTIMATES OF THE REAGAN ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS—Continued

[Preliminary estimates, by fiscal years, savings in millions]

	1990	1991	1992	1993	1994	1990–94
Durable medical equipment—rental	−100	−150	−170	−190	−220	−830
Reduce oxygen reimbursement 5 percent	−30	−50	−60	−70	−80	−290
Enteral nutrients	−30	−40	−60	−70	−80	−280
Catastrophic health insurance impact	−90	−160	−200	−250	−281	−981
Subtotal: Part B	−1,265	−2,705	−4,025	−5,030	−5,801	−18,826
Premiums:						
Premium reductions due to savings	296	612	876	1,076	1,260	4,120
Extend 25 percent SMI premium	−617	−1,715	−2,812	−4,409	−6,488	−16,041
Total (legislative)	−4,912	−8,020	−10,585	−13,383	−16,460	−53,360
Total (regulatory)	−10	−20	−25	−25	−25	−105
Total, Medicare	−4,922	−8,040	−10,610	−13,408	−16,485	−53,465
Social Security: Benefits for adopted children	8	13	19	20	20	80
AFDC/CSE/QC/foster care:						
AFDC/QC Proposals	−80	−80	136	115	92	183
CSE Incentive floor	−47	−48	−49	−51	−54	−249
CSE Services for food stamp children	−100	−100	−100	−100	−100	−500
Limit AFDC administrative cost	−123	−129	−124	−120	−124	−620
Cap Foster Care administrative cost	−421	−624	−724	−814	−897	−3,480
Subtotal	−771	−981	−861	−970	−1,083	−4,666
Trade Adjustment assistance:						
End Assistance	−196	−259	−262	−254	−244	−1,215

Total all outlays	−5,881	−9,267	−11,714	−14,612	−17,792	−59,266
REVENUES						
Airport and airway trigger repeal	−892	−1,553	−1,678	−1,805	−1,946	−7,874
HI coverage of state and local employees	−1,831	−1,915	−1,916	−1,906	−1,910	−9,478
Elimination of Superfund tax differentials	0	0	0	0	0	0
Customs user fee proposals (net budget effect) [1]	197	86	24	133	159	599
Oil and gas depletion rules	39	49	45	47	45	225
R&E allocation rules	1,699	749	814	887	967	5,116
Extension of R&E credit	387	688	963	1,150	1,379	4,567
Amtrak/Rail UI	5	2	−3	−4	−5	−5
IRS user fees	0	−48	−48	−48	−48	−48
Total revenues	−396	−1,942	−1,799	−1,546	−1,359	−6,898
Total deficit reduction	−6,277	−11,209	−13,513	−16,158	−19,151	−66,164

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[1] OMB and CBO differ significantly in fiscal years 1991 and beyond for this proposal because the CBO baseline assumes the user fee provisions expire (as mandated by the Gramm-Rudman baseline), while OMB assumes extension of current law.

Note: Sign indicates impact on deficit.

Sources: HHS; Office of Management and Budget, Treasury.

TABLE 28.—REAGAN ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[CBO preliminary estimates, by fiscal years, savings in millions]

	1990	1991	1992	1993	1994	1990–94
OUTLAYS						
Medicare:						
Part A:						
Legislative proposals:						
Reduce hospital capital to 75 percent	−1,150	−1,450	−1,610	−1,790	−1,980	−7,980
Reduce indirect medical education to 4.05 percent	−1,010	−1,270	−1,400	−1,530	−1,670	−6,880
PPS update factor of MB—1.5 percent	−590	−740	−820	−900	−980	−4,030
Graduate medical education reductions (HI)	−130	−160	−165	−170	−180	−805
Catastrophic health insurance impact	−15	−19	−21	−23	−25	−103
Coverage, State and local	0	1	4	9	16	30
Subtotal: Part A	−2,895	−3,628	−4,012	−4,404	−4,819	−19,768
Part B:						
Current law extensions: Clinical Labs—keep 100 percent caps	0	0	0	0	0	0
Legislative proposals:						
Freeze MEI for non-primary care physicians	−585	−1,021	−1,607	−1,806	−2,037	−7,056
Overpriced procedures	−365	−317	−402	−504	−644	−2,232
Reduce radiology/anesthesiology/surgery payments by 8 percent	−472	−462	−521	−585	−655	−2,695
New physician customary charges	−37	−150	−247	−322	−365	−1,121
Concurrent anesthesia	−15	−20	−25	−25	−30	−115
Designated specialties	−32	−32	−32	−38	−43	−177
Graduate medical education reductions (SMI)	−35	−40	−40	−45	−45	−205

Reduce outpatient hospital	0	−285	−537	−795	−945	−2,562
Durable medical equipment—rental	−112	−166	−188	−210	−236	−912
Reduce oxygen reimbursement 5 percent	−37	−54	−69	−70	−75	−305
Enteral nutrients	−16	−26	−29	−31	−35	−137
Coverage, State and local	0	0	2	5	10	17
Subtotal: Part B	−1,706	−2,573	−3,695	−4,426	−5,100	−17,500
Premium reductions due to savings	396	677	946	1,174	1,410	4,603
Extend 25 percent SMI premium	−585	−1,330	−2,177	−3,221	−4,494	−11,807
Total: Legislative	−4,790	−6,864	−8,938	−10,877	−13,003	−44,472
Total: Regulatory	−173	−202	−228	−266	−301	−1,170
Total: Medicare savings	−4,963	−7,066	−9,166	−11,143	−13,304	−45,642
Social Security: Benefits for adopted children	5	12	16	21	22	76
AFDC/CSE/QC/foster care:						
AFDC/QC proposals	−85	−85	−85	−85	−85	−425
CSE incentive floor	−70	−75	−85	−90	−100	−420
CSE services for food stamp children	15	25	25	25	25	115
Limit AFDC administrative costs	−95	−135	−155	−170	−190	−745
Regulation essential persons	−55	−57	−59	−61	−63	−295
Cap foster care administrative costs	−438	−664	−759	−851	−938	−3,650
Subtotal	−728	−991	−1,118	−1,232	−1,351	−5,420
Trade adjustment assistance: End assistance	−220	−270	−270	−260	−250	−1,270
Total all outlays	−5,906	−8,315	−10,538	−12,614	−14,883	−52,256

TABLE 28.—REAGAN ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS—Continued

[CBO preliminary estimates, by fiscal years, savings in millions]

	1990	1991	1992	1993	1994	1990–94
REVENUES						
Airport and airways trigger repeal	−851	−1,505	−1,630	−1,762	−1,907	−7,655
HI coverage of State and local employees	−1,731	−1,928	−1,931	−1,931	−1,939	−9,460
Elimination of Superfund tax differentials	0	0	0	0	0	0
Customs user fee proposals (net budget effect) [1]	129	−539	−625	−652	−679	−2,366
Oil and gas depletion rules	23	44	51	54	54	226
R&E allocation rules	1,699	749	814	887	967	5,116
Extension of R&E credit	387	688	963	1,150	1,379	4,567
Amtrak/Rail UI	4	2	−2	−3	−4	−3
IRS user fees	0	−48	−48	−48	−48	−192
Total revenues	−340	−2,537	−2,408	−2,305	−2,177	−9,767
Revenue increases	−2,449	−4,018	−4,236	−4,396	−4,577	−19,676
Total deficit reduction	−6,246	−10,852	−12,946	−14,919	−17,060	−62,023

[1] OMB and CBO differ significantly in fiscal years 1991 and beyond for this proposal because the CBO baseline assumes the user fee provisions expire (as mandated by the Gramm-Rudman baseline), while OMB assumes extension of current law.

Sources: HHS, Office of Management and Budget, Treasury.

Note: Sign indicates impact on deficit.

TABLE 29.—BUSH ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[OMB preliminary estimates, by fiscal years, savings in million]

	1990	1991	1992	1993	1994	1990–94
OUTLAYS						
Medicare:						
Part A: Current law extensions: hospital capital at 85 percent	−930	−1,190	−1,300	−1,420	−1,530	−6,370
Legislative proposals:						
Reduce hospital capital to 75 percent	−620	−780	−880	−940	−1,020	−4,240
Reduce indirect medical education to 4.05 percent	−1,020	−1,290	−1,410	−1,540	−1,660	−6,920
PPS Update factor of MB—1.5 percent	−625	−800	−875	−955	−1,040	−4,295
Graduate medical education reductions (HI)	−120	−130	−135	−140	−150	−675
Catastrophic health insurance impact	−11	−22	−24	−25	−31	−113
Subtotal: Part A	−3,326	−4,212	−4,624	−5,020	−5,431	−22,613
Part B:						
Current law extensions: Clinical Labs—keep 100 percent caps	−190	−330	−410	−480	−560	−1,970
Legislative proposals:						
Freeze MEI for non-primary care physicians	−375	−960	−1,640	−2,085	−2,400	−7,460
Overpriced procedures	−100	−180	−210	−240	−270	−1,000
Reduce radiology/anesthesiology/surgery payments by 8 percent	−250	−430	−510	−570	−640	−2,400
New physician customary charges	−40	−110	−150	−190	−220	−710
Concurrent anesthesia	−15	−20	−30	−30	−30	−125
Designated specialties	−15	−25	−30	−35	−40	−145
Graduate medical education reductions (SMI)	−30	−30	−35	−40	−40	−175
Reduced outpatient hospital	−0	−220	−520	−780	−940	−2,460
Durable medical equipment—rental	−100	−150	−170	−190	−220	−830
Reduce oxygen reimbursement 5 percent	−30	−50	−60	−70	−80	−290
Enteral nutrients	−30	−40	−60	−70	−80	−280

TABLE 29.—BUSH ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS—Continued

[OMB preliminary estimates, by fiscal years, savings in million]

	1990	1991	1992	1993	1994	1990–94
Catastrophic health insurance impact	−90	−160	−200	−250	−281	−981
Subtotal: Part B	−1,265	−2,705	−4,025	−5,030	−5,801	−18,826
Premium reductions due to savings	296	612	876	1,076	1,260	4,120
Extend 25 percent SMI premium	−617	−1,715	−2,812	−4,409	−6,488	−16,041
Total: Legislative	−4,912	−8,020	−10,585	−13,383	−16,460	−53,360
Total: Regulatory	−10	−20	−25	−25	−25	−105
Total: Medicare savings	−4,922	−8,040	−10,610	−13,408	−16,485	−53,465
Social Security: Benefits for adopted children	8	13	19	20	20	80
Total all outlays	−4,914	−8,027	−10,591	−13,338	−16,465	−53,385
REVENUES						
Airport and airway trigger repeal	−892	−1,553	−1,678	−1,805	−1,946	−7,874
HI coverage of State and local employees	−1,831	−1,915	−1,916	−1,906	−1,910	−9,478
Elimination of Superfund tax differentials	0	0	0	0	0	0
Customs user fee proposals (net budget effect) [1]	197	86	24	133	159	599
Oil and gas depletion rules	39	49	45	47	45	225
R&E allocation rules	1,699	749	814	887	967	5,116
Extension of R&E credit	387	688	963	1,150	1,379	4,567
Amtrak/Rail UI	5	2	−3	−4	−5	−5
IRS user fees	0	−48	−48	−48	−48	−48
Child care credit	187	1,893	2,211	2,482	2,830	9,603
Double adoption deduction	0	3	3	3	3	12

Oil and gas proposals	300	400	400	500	500	2,100
Enterprise zones	150	200	300	400	500	1,550
Capital gains	−4,800	−4,900	−3,500	−2,200	6,800	−8,600
Extend telephone excise tax	0	−1,586	−2,606	−2,804	−3,013	−10,009
Total revenues	−4,559	−5,932	−4,991	−3,165	6,261	−12,242
Revenue increases	−7,523	−10,002	−9,748	−8,763	−117	−36,009
Total deficit reduction	−9,473	−13,959	−15,582	−16,553	−10,204	−65,627

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[1] OMB and CBO differ significantly in fiscal years 1991 and beyond for this proposal because the CBO baseline assumes the user fee provisions expire (as mandated by the Gramm-Rudman baseline), while OMB assumes extension of current law.

Note: Sign indicates impact on deficit. The Bush Administration budget has not endorsed any specific Reagan proposals in the AFDC, Child Support Enforcement, Foster Care, and Trade Adjustment Assistance programs. However, the TAA program and State administrative costs for both AFDC and foster care are in the category of programs subject to a freeze.

Sources: HHS; Office of Management and Budget, Treasury.

TABLE 30.—BUSH ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[CBO preliminary estimates, by fiscal years, savings in millions]

	1990	1991	1992	1993	1994	1990–94
OUTLAYS						
MEDICARE						
Part A:						
Legislative proposals:						
Reduce hospital capital to 75 percent	−1,150	−1,450	−1,610	−1,790	−1,980	−7,980
Reduce indirect medical education to 4.05 percent	−1,010	−1,270	−1,400	−1,530	−1,670	−6,880
PPS update factor of MB—1.5 percent	−590	−740	−820	−900	−980	−4,030
Graduate medical education reductions (HI)	−130	−160	−165	−170	−180	−805
Catastrophic health insurance impact	−15	−19	−21	−23	−25	−103
Coverage, State and local	0	1	4	9	16	30
Subtotal: Part A	−2,895	−3,638	−4,012	−4,404	−4,819	−19,768
Part B:						
Current law extensions:						
Clinical Labs—keep 100 percent caps	0	0	0	0	0	0
Legislative proposals:						
Freeze MEI for nonprimary care physicians	−585	−1,021	−1,607	−1,806	−2,037	−7,056
Overpriced procedures	−365	−317	−402	−504	−644	−2,232
Reduce radiology/anesthesiology/surgery payments by 8 percent	−472	−462	−521	−585	−655	−2,695
New physician customary charges	−37	−150	−247	−322	−365	−1,121
Concurrent anesthesia	−15	−20	−25	−25	−30	−115
Designated specialities	−32	−32	−32	−38	−43	−177
Graduate medical education reductions (SMI)	−35	−40	−40	−45	−45	−205
Reduce outpatient hospital	0	−285	−537	−795	−945	−2,562
Durable medical equipment—rental	−112	−166	−188	−210	−236	−912

Reduce oxygen reimbursement 5 percent	−37	−54	−69	−70	−75	−305
Enteral nutrients	−16	−26	−29	−31	−35	−137
Coverage, State and local	0	0	2	5	10	17
Subtotal: Part B	−1,706	−2,573	−3,695	−4,426	−5,100	−17,500
Premium reductions due to savings	396	677	946	1,174	1,410	4,603
Extend 25 percent SMI premium	−585	−1,330	−2,177	−3,221	−4,494	−11,807
Total: Legislative	−4,790	−6,864	−8,938	−10,877	−13,003	−44,472
Total: Regulatory	−173	−202	−228	−266	−301	−1,170
Total: Medicare savings	−4,963	−7,066	−9,166	−11,143	−13,304	−45,642
Social Security: Benefits for adopted children	5	12	16	21	22	76
AFDC: Regulation essential persons	−55	−57	−59	−61	−63	−295
Total all outlays	−5,013	−7,111	−9,209	−11,183	−13,345	−45,861
REVENUES						
Airport and airway trigger repeal	−851	−1,505	−1,630	−1,762	−1,907	−7,655
HI coverage of State and local employees	−1,731	−1,928	−1,931	−1,931	−1,939	−9,460
Elimination of Superfund tax differentials	0	0	0	0	0	0
Customs user fee proposals (net budget effect) [1]	129	−539	−625	−652	−679	−2,366
Oil and gas depletion rules	23	44	51	54	54	226
R&E allocation rules	−1,699	749	814	887	967	5,116
Extension of R&E credit	387	688	963	1,150	1,379	4,567
Amtrak/Rail UI	4	2	−2	−3	−4	−3
IRS user fees	0	−48	−48	−48	−48	−192
Child care credit	300	3,000	3,300	3,600	4,100	14,300
Double adoption deduction	0	3	3	3	3	12
Oil and gas proposals	269	412	433	462	485	2,061
Enterprise zones	150	200	300	400	500	1,550
Capital gains	−3,300	4,000	6,400	6,900	10,900	24,900

TABLE 30.—BUSH ADMINISTRATION PROPOSALS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS—Continued

[CBO preliminary estimates, by fiscal years, savings in millions]

	1990	1991	1992	1993	1994	1990–94
Extend telephone excise tax	0	–1,612	–2,732	–2,930	–3,143	–10,417
Total revenues	–2,921	3,466	5,296	6,130	10,668	22,639
Revenue increases	–2,449	–5,582	–6,920	–7,278	–7,672	–29,901
Total deficit reduction	–7,934	–3,645	–3,913	–5,053	–2,677	–23,222

[1] OMB and CBO differ significantly in fiscal years 1991 and beyond for this proposal because the CBO baseline assumes the user fee provisions expire (as mandated by the Gramm-Rudman baseline), while OMB asumes extension of current law.

Note: Sign indicates impact on deficit. The Bush Administration budget has not endorsed any specific Reagan proposals in the AFDC, Child Support Enforcement, Foster Care, and Trade Adjustment Assistance programs. However, the TAA program and State administrative costs for both AFDC and foster care are in the category of programs subject to a freeze.

Sources: HHS, Office of Management and Budget, Treasury.

TABLE 31.—COMPARISON OF REAGAN DEFICIT REDUCTION PROPOSALS TO SEQUESTRATION USING OMB PROJECTIONS

[In billions of dollars, fiscal year 1990]

	OMB deficit numbers		CBO deficit numbers	
	Sequester	Reagan	Sequester	Reagan
National defense	−13.0	2.1	−23	3
Nondefense discretionary	−10.7	−4.3	−17	−5
Entitlements (total)	−2.5	−18.0	−6	−17
Medicare	(−1.5)	(−4.9)	−2	−5
Other	(−1.0)	(−13.1)	−4	−12
Revenues, asset sales, user fees	0.0	−13.1	0	−7
Net interest	−1.0	−1.2	−2	−1
Total deficit reduction	−27.2	−34.5	−48	−26

Source: Committee staff.

TABLE 32.—HISTORICAL DATA ON BUDGET OUTLAYS, RECEIPTS, AND DEFICITS

[Dollar amounts in billions]

Fiscal year	Receipts		Outlays [1]		Deficit	
	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1971	187.1	17.7	210.2	19.9	−23.0	2.2
1972	207.3	18.0	230.7	20.0	−23.4	2.0
1973	230.8	18.0	245.7	19.2	−14.9	1.2
1974	263.2	18.6	269.4	19.0	−6.1	.4
1975	279.1	18.3	332.3	21.8	−53.2	3.5
1976	298.1	17.6	371.8	21.9	−73.7	4.3
1977	355.6	18.4	409.2	21.2	−53.6	2.8
1978	399.6	18.4	458.7	21.1	−59.2	2.7
1979	463.3	18.9	503.5	20.6	−40.2	1.6
1980	517.1	19.4	590.9	22.1	−73.8	2.8
1981	599.3	20.1	678.2	22.7	−78.9	2.6
1982	617.8	19.7	745.7	23.8	−127.9	4.1
1983	600.6	18.1	808.3	24.3	−207.8	6.3
1984	666.5	18.1	851.8	23.1	−185.3	5.0
1985	734.1	18.6	946.3	23.9	−212.3	5.4
1986	769.1	18.4	990.3	23.7	−221.2	5.3
1987	854.1	19.3	1,003.8	22.6	−149.7	3.4
1988	909.0	19.0	1,064.1	22.3	−155.1	3.2

[1] Includes outlays (and deficits) that are off-budget under prior and current law.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1990–1994".

TABLE 33.—REVENUE, OUTLAYS, AND SURPLUS OR DEFICITS FOR THE TOTAL BUDGET, AND OASDHI TRUST FUNDS AS A PERCENT OF GROSS NATIONAL PRODUCT

	Total budget			OASDHI			Remainder of the budget		
	Revenues	Outlays	Deficit (−) or surplus	Revenues [1]	Outlays [2]	Deficit (−) or surplus	Revenues	Outlays	Deficit (−) or surplus
1960	18.3	18.2	0.1	2.3	2.3	−0.0	16.0	15.9	0.1
1961	18.2	18.9	−.6	2.5	2.4	.1	15.7	16.5	−.7
1962	17.9	19.2	−1.3	2.3	2.6	−.2	15.5	16.6	−1.1
1963	18.1	18.9	−.8	2.6	2.7	−.1	15.6	16.3	−.7
1964	17.9	18.8	−.9	2.7	2.6	.1	15.2	16.2	−1.0
1965	17.4	17.6	−.2	2.6	2.6	.0	14.7	15.0	−.2
1966	17.7	18.2	−.5	2.8	2.8	.0	14.9	15.4	−.5
1967	18.7	19.8	−1.1	3.6	3.1	.6	15.1	16.8	−1.7
1968	18.0	21.0	−3.0	3.6	3.3	.3	14.4	17.7	−3.3
1969	20.1	19.8	.3	3.9	3.4	.5	16.2	16.3	−.1
1970	19.5	19.8	−.3	4.2	3.6	.7	15.3	16.2	−.9
1971	17.7	19.9	−2.2	4.3	3.9	.3	13.5	16.0	−2.5
1972	18.0	20.0	−2.0	4.3	4.0	.2	13.7	16.0	−2.3
1973	18.0	19.2	−1.2	4.5	4.4	.2	13.5	14.8	−1.3
1974	18.6	19.0	−.4	4.9	4.5	.4	13.7	14.5	−.8
1975	18.3	21.8	−3.5	5.2	4.9	.3	13.1	16.9	−3.8
1976	17.6	21.9	−4.3	5.0	5.1	.1	12.6	16.8	−4.2
1977	18.4	21.2	−.8	5.0	5.2	.2	13.4	16.0	−.6
1978	18.4	21.1	−2.7	5.0	5.1	.2	13.4	16.0	−2.6
1979	18.9	20.6	−1.6	5.1	5.1	.0	13.9	15.5	−1.6
1980	19.4	22.1	−2.8	5.3	5.3	.0	14.0	16.8	−2.8
1981	20.1	22.7	−2.6	5.6	5.7	.0	14.5	17.1	−2.6
1982	19.7	23.8	−4.1	5.9	6.1	−.2	13.8	17.7	−3.9
1983	18.1	24.3	−6.3	6.5	6.3	.2	11.6	18.0	−6.4
1984	18.1	23.1	−5.0	6.2	6.1	.1	11.9	17.0	−5.1
1985	18.6	23.9	−5.4	6.4	6.1	.3	12.2	17.9	−5.7
1986	18.4	23.7	−5.3	6.5	6.0	.6	11.8	17.7	−5.8
1987	19.3	22.6	−3.4	6.5	5.8	.7	12.7	16.8	−4.1
1988	19.0	22.3	−3.2	6.8	5.7	1.1	12.2	16.5	−4.4
1989 [3]	19.1	22.2	−3.2	7.1	5.7	1.4	11.9	16.5	−4.6
1990 [3]	19.3	21.0	−1.7	7.3	5.6	1.7	12.0	15.4	−3.4
1991 [3]	19.5	20.6	−1.1	7.4	5.6	1.8	12.1	15.0	−2.9
1992 [3]	19.5	20.0	−.5	7.5	5.6	1.9	12.0	14.4	−2.4
1993 [3]	19.5	19.5	.0	7.6	5.6	2.0	11.9	13.9	−2.0
1994 [3]	19.5	19.0	.5	7.7	5.6	2.1	11.8	13.4	−1.6
1960–69 [4]	18.2	19.0	.8	2.9	2.8	.1	15.3	16.3	−.9
1970–79 [4]	18.3	20.4	1.9	4.7	4.6	.2	13.6	15.9	−2.1
1980–89 [4]	19.0	23.1	−4.1	6.3	5.9	.4	12.7	17.2	−4.5
1990–94 [4]	19.5	20.1	−.6	7.5	5.6	1.9	12.0	14.4	−2.4

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[1] OASDHI revenues include all revenues to those funds, including interest.

[2] OASDHI outlays equal the totals of OASI plus DI plus HI.

[3] Projected under Administration policies.

[4] Average for these years.

Source: Office of Management and Budget, Historical Tables, Budget of the United States Government, Fiscal Year 1988; Tables 1.2, 2.4, 13.1.

TABLE 34.—FEDERAL FINANCES AND THE FEDERAL DEBT, 1955–94

[Dollar amounts in billions]

	Total deficit		Federal debt, end of year					
			Gross		Held by Government accounts		Held by the public	
	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1955	−3.0	−.8	274.3	71.0	47.8	12.4	226.6	58.6
1956	3.9	.9	272.7	65.2	50.5	12.1	222.2	53.1
1957	3.4	.8	272.2	61.8	52.9	12.0	219.3	49.8
1958	−2.8	−.6	279.7	62.1	53.3	11.8	226.3	50.3
1959	−12.8	−2.7	287.5	59.7	52.8	11.0	234.7	48.7
1960	.3	.1	290.5	57.3	53.7	10.6	236.8	46.7
1961	−3.3	−.6	292.6	56.5	54.3	10.5	238.4	46.0
1962	−7.1	−1.3	302.9	54.3	54.9	9.8	248.0	44.5
1963	−4.8	−.8	310.3	52.8	56.3	9.6	254.0	43.2
1964	−5.9	−.9	316.1	50.2	59.2	9.4	256.8	40.8
1965	−1.4	−.2	322.3	47.9	61.5	9.1	260.8	38.8
1966	−3.7	−.5	328.5	44.5	64.8	8.8	263.7	35.7
1967	−8.6	−1.1	340.4	42.8	73.8	9.3	266.6	33.6
1968	−25.2	−3.0	368.7	43.4	79.1	9.3	289.5	34.1
1969	3.2	.3	365.8	39.4	87.7	9.4	278.1	29.9
1970	−2.8	−.3	380.9	38.5	97.7	9.9	283.2	28.6
1971	−23.0	−2.2	408.2	38.7	105.1	10.0	303.0	28.7
1972	−23.4	−2.0	435.9	37.8	113.6	9.8	322.4	28.0
1973	−14.9	−1.2	466.3	36.4	125.4	9.8	340.9	26.6
1974	−6.1	−.4	483.9	34.2	140.2	9.9	343.7	24.3
1975	−53.2	−3.5	541.9	35.6	147.2	9.7	394.7	25.9
1976	−73.7	−4.3	629.0	37.0	151.6	8.9	477.4	28.1
TQ			643.6	35.9	148.1	8.2	495.5	27.6
1977	−53.6	−2.8	706.4	36.5	157.3	8.1	549.1	28.4
1978	−59.2	−2.7	776.6	35.8	169.5	7.8	607.1	28.0
1979	−40.2	−1.6	828.9	33.9	189.2	7.7	639.8	26.1
1980	−73.8	−2.8	908.5	34.0	199.2	7.5	709.3	26.6
1981	−78.9	−2.6	994.3	33.3	209.5	7.0	784.8	26.3
1982	−127.9	−4.1	1,136.8	36.2	217.6	6.9	919.2	29.3
1983	−207.8	−6.3	1,371.2	41.3	240.1	7.2	1,131.0	34.0
1984	−185.3	−5.0	1,564.1	42.4	264.2	7.2	1,300.0	35.3
1985	−212.3	−5.4	1,817.0	46.0	317.6	8.0	1,499.4	37.9
1986	−221.2	−5.3	2,120.1	50.6	383.9	9.2	1,736.2	41.5
1987	−149.7	−3.4	2,345.6	52.9	457.4	10.3	1,888.1	42.6
1988	−155.1	−3.2	2,600.8	54.4	550.6	11.5	2,050.2	42.9
1989 estimate	−161.5	−3.2	2,868.8	56.0	675.0	13.2	2,193.8	42.9
1990 estimate	−92.5	1.7	3,107.2	56.7	822.2	15.0	2,285.0	41.7
1991 estimate	−66.8	−1.1	3,335.6	57.0	984.3	16.8	2,351.2	40.2
1992 estimate	−32.2	−.5	3,537.1	57.0	1,154.2	18.6	2,382.9	38.4
1993 estimate	2.4	(1)	3,719.7	56.7	1,339.8	20.4	2,379.9	36.3
1994 estimate	33.4	.5	3,886.4	56.4	1,540.4	22.4	2,346.0	34.1

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[1] 0.05 percent or less.

Note.—Excludes transition quarter. Estimates assume Administration's budget.

Source: Historical tables, Budget of the United States Government, Fiscal Year 1990.

TABLE 35.—STATUTORY DEBT LIMIT AND DEBT SUBJECT TO LIMIT, 1977–88

[In billions of dollars]

End of fiscal year	Statutory debt limit	Debt subject to limit
1977	700.0	700.0
1978	798.0	772.7
1979	830.0	827.6
1980	925.0	908.7
1981	999.8	998.8
1982	1,143.1	1,142.9
1983	1,389.0	1,378.0
1984	1,573.0	1,573.0
1985	1,823.8	1,823.8
1986	2,111.0	2,111.0
1987	2,800.0	2,336.0
1988	2,800.0	2,586.9

Source: OMB Historical Tables, tables 7.2, 7.3.

TABLE 36.—ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES, 1977–88

[Par. values; [1] billions of dollars]

End of calendar year	Total public debt securities	Held by Govern-ment accounts	Held by Federal Reserve Banks	Held by private investors											
				Total	Commer-cial banks [2]	Nonbank investors									
						Total	Individuals [3]			Insurance compa-nies	Money market funds	Corpora-tions [5]	State and local govern-ments [6]	Foreign and internation-al [7]	Other investors [8]
							Total	Savings bonds [4]	Other securities						
1977	718.9	154.8	102.8	461.3	98.9	362.4	107.8	76.7	31.1	19.9	.9	18.2	58.1	109.6	47.9
1978	789.2	170.0	110.6	508.6	95.0	413.6	114.0	80.7	33.3	20.0	1.5	17.3	76.1	133.1	51.6
1979	845.1	187.1	117.5	540.5	88.1	452.4	118.0	79.9	38.1	21.4	5.6	17.0	81.7	119.0	89.7
1980	930.2	192.5	121.3	616.4	112.1	504.3	117.1	72.5	44.6	24.0	3.5	19.3	87.9	129.7	122.8
1981	1,028.7	203.3	131.0	694.5	111.4	583.1	110.8	68.1	42.7	29.0	21.5	17.9	96.8	136.6	170.5
1982	1,197.1	209.4	139.3	848.4	131.4	717.0	116.5	68.3	48.2	39.1	42.6	24.5	116.6	149.5	228.2
1983	1,410.7	236.3	151.9	1,022.6	188.8	883.7	133.4	71.5	61.9	56.7	22.8	39.7	150.5	166.3	264.4
1984	1,663.0	289.6	160.9	1,212.5	183.4	1,029.1	143.8	74.5	69.3	76.4	25.9	50.1	173.4	192.9	366.6
1985	1,945.9	348.9	181.3	1,417.2	192.2	1,225.0	154.8	79.8	75.0	95.8	25.1	59.0	235.8	212.5	442.0
1986	2,216.4	403.1	211.3	1,602.0	203.5	1,371.9	162.9	92.3	70.5	106.9	28.6	68.8	273.1	251.5	486.0
1987	2,435.2	477.7	222.6	1,745.2	201.2	1,544.0	173.4	101.1	72.3	120.6	14.3	84.6	282.6	287.3	581.2
1988 [9]	2,614.6	550.4	229.2	1,819.0	203.0	1,616.0	179.8	107.8	72.0	135.0	10.8	86.0	287.0	334.3	583.1

[1] U.S. savings bonds, series A–F and J, are included at current redemption value.

[2] Includes domestically chartered banks, U.S. branches and agencies of foreign banks; New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks. [3] Includes partnerships and personal trust accounts.

[4] Includes U.S. savings notes. Sales began May 1, 1967, and were discontinued June 30, 1970. [5] Exclusive of banks and insurance companies.

[6] Includes State and local pension funds. [7] Consists of the investment of foreign balances and international accounts in the United States.

[8] Includes savings and loan associations, credit unions, nonprofit institutions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain Government deposit accounts, and Government-sponsored agencies. [9] September estimate.

Source: Treasury Bulletin 4th Quarter, Fiscal 1988, p. 57.

TABLE 37.—NET SAVINGS AND INVESTMENT FLOWS AS A PERCENTAGE OF GNP

[NIPA basis]

	Net private domestic savings (1)	State and local surplus (2)	Federal deficit (3)	Net domestic savings available for domestic investment (1) + (2) − (3) (4)	Net private domestic investment (5)	Net domestic savings shortfalls (5) − (4) = net capital inflows (6)
1950–59	7.5	0.2	−0.1	7.8	7.5	−0.3
1960–69	8.1	.0	0.3	7.8	7.1	−.7
1970–79	8.1	.8	1.7	7.2	6.9	−.3
1980	6.4	1.0	2.2	5.2	4.9	−.3
1981	6.6	1.1	2.1	5.6	5.5	−.1
1982	5.5	1.1	4.6	2.0	2.0	.0
1983	5.7	1.4	5.2	1.9	3.1	1.2
1984	6.8	1.7	4.5	4.0	6.6	2.6
1985	5.7	1.6	4.9	2.4	5.1	2.7
1986	5.3	1.3	4.8	1.8	5.1	3.3
1987	4.3	1.0	3.4	1.9	5.3	3.4
1988	4.5	1.2	2.8	2.9	5.3	2.4

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

TABLE 38.—CBO AND ADMINISTRATION ESTIMATES OF THE BUDGET DEFICIT UNDER BUSH ADMINISTRATION POLICIES

[By fiscal year, in billions of dollars]

	1989	1990	1991	1992	1993
Administration estimate, including asset sales	163	91	62	27	−4
CBO reestimates:					
Economic differences	−4	9	33	55	78
Technical differences	−2	8	17	22	22
REFCORP[1]	9	22	12	([2])	([2])
Subtotal	3	40	62	77	100
CBO estimate, including asset sales and REFCORP	166	131	124	104	97
Adjustments:					
Asset sales	5	3	2	1	−1
REFCORP	−10	−25	−15	0	0
Subtotal	−5	−22	−13	1	−1
CBO estimate, excluding asset sales and REFCORP	161	109	111	105	96
Balanced Budget Act targets	136	100	64	28	0

[1] The proposed Resolution Financing Corporation (REFCORP) would borrow money in private credit markets to assist in resolving troubled savings and loan institutions.

[2] Less than $0.5 billion.

Note.—The totals include Social Security, which is off-budget.

Sources: Office of Management and Budget; Congressional Budget Office.

TABLE 39.—THE BUSH ADMINISTRATION'S BUDGET PROGRAM AS ESTIMATED BY CBO

[By fiscal year, in billions of dollars]

	1990	1991	1992	1993
CBO baseline deficit	146	146	140	135
Proposed changes:				
Revenues [1]	−4	([2])	2	3
National defense	1	−2	−5	−6
Nondefense discretionary spending [3]	−8	−6	−7	−7
Entitlements and other mandatory spending	1	−6	−16	−17
Offseting receipts	−1	−5	−3	−5
Asset sales and prepayments	−3	−2	−1	1
Net interest	−1	−3	−5	−7
Total proposed changes	−15	−22	−35	−38
Deficit, Bush Administration budget as estimated by CBO [4]	131	124	104	97

[1] Revenue increases are shown with a negative sign because they reduce the deficit.
[2] Less than $0.5 billion.
[3] Includes some entitlement program reductions that are in the category of programs subject to a freeze.
[4] Including asset sales and REFCORP.

Note.—The totals include Social Security, which is off-budget.

Source: Congressional Budget Office.

TABLE 40.—THE BUSH ADMINISTRATION'S PROPOSALS—ENTITLEMENTS AND OTHER MANDATORY SPENDING

[By fiscal year, in billions of dollars]

	1990	1991	1992	1993
CBO baseline	585.3	633.0	673.1	719.6
Proposed changes:				
Deposit insurance	12.8	6.8	−1.8	−1.0
Child care credit	.3	3.0	3.3	3.6
Medicare	−4.8	−6.4	−7.9	−9.1
Federal retiree benefits:				
Civilian retirement	−2.7	−3.4	−3.7	−4.1
Military retirement	−.8	−1.2	−1.5	−1.8
Annuitants' health benefits	−1.0	−1.2	−1.3	−1.5
Subtotal	−4.4	−5.8	−6.6	−7.4
Federal price supports	−1.6	−1.7	−1.4	−1.1
Veterans' loans	−.7	−.7	−.8	−.8
Other	−.7	−1.0	−1.5	−1.7
Total proposed changes	.8	−5.8	−16.6	−17.4
Bush Administration's budget as estimated by CBO [1]	586.1	627.2	656.5	702.2

[1] The figures do not include possible changes to residual programs.

Note.—The totals include Social Security, which is off-budget.

Source: Congressional Budget Office.

Section 2. Description of Bush Administration Proposals To Modify Spending for Programs Under the Jurisdiction of the Committee on Ways and Means

MEDICARE[1]

Indirect Medical Education

Current law and background

Medicare currently pays Prospective Payment System (PPS) teaching hospitals for the indirect costs associated with approved intern and resident programs. These indirect costs may be due to a variety of factors, such as extra demands placed on hospital staff due to the teaching activity, additional tests and procedures ordered by residents, or more severely ill patients treated at teaching hospitals. The payment adjustment is currently based on a formula that increases the Federal portion of the DRG payment by 7.7 percent. The payment amount increases for each 0.1 percent of the hospital's intern and resident to bed ratio on a curvilinear basis (e.g., an increase in the resident to bed ratio does not result in a proportional increase in payment). In fiscal year 1995, the factor is scheduled to increase to 8.3 percent. (This increase was to coincide with the scheduled fiscal year 1991 expiration of a separate PPS payment adjustment for hospitals which treat a disproportionate share of low-income patients. However, Public Law 100-647 extended disproportionate share payments and delayed the increase in the indirect cost adjustment until fiscal year 1995.)

Description of proposal

The budget proposal would reduce the factor used to calculate payments for hospital indirect medical education costs to 4.05 percent indefinitely.

Direct Medical Education

Current law and background

Under current law, teaching hospitals also receive additional payment for the direct costs of medical education programs, such as the salaries and other education costs of interns, residents, nurses, and allied health professionals. These costs are not included in the PPS payment rates. Instead, payments for graduate medical education are currently based on Medicare's share of each hospital's costs per resident as updated each year by the consumer price index.

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[1] The outlay savings estimates used throughout this section refer to estimates prepared by the administration.

Description of proposal

The budget proposal would limit PPS payments for the direct costs of graduate medical education (i.e., internship and residency training programs for physicians) to only those costs related to intern and resident salaries, salary-related fringe benefits and appropriately allocated overhead. Costs for such items as classroom space and supervision by teaching physicians, which are now permitted to be included, would no longer be reimbursed.

PPS Update Factor

Current law and background

The overall increase in PPS payment rates each year is determined by an update factor. This factor is based in part on the projected increase in "market basket index", or MBI, which estimates the costs of the goods and services hospitals must purchase to provide care. However, other factors that may affect costs, such as changes in hospital efficiency or the adoption of new medical technologies, are also considered in determining the update factor. It may therefore be higher or lower than the projected increase in the MBI. Beginning with fiscal year 1986, Congress has set the update factor at a level below the MBI increase. Current law provides that the update factor for fiscal year 1990 and later years is to be equal to the projected change in the MBI.

Description of proposal

The budget proposes instead to set the update factor for fiscal year 1990 equal to the MBI increase minus 1.5 percentage points. The fiscal year 1990 MBI increase is currently estimated by the Congressional Budget Office (CBO) to be 5.4 percent. The proposed change would reduce the update factor to 3.9 percent.

Capital Payments

Current law and background

Hospitals' capital-related expenses, such as interest, depreciation, and rental costs, are excluded from the PPS payment and are reimbursed separately on a reasonable cost basis. Medicare's share of these costs is computed by multiplying a hospital's total capital costs by Medicare's share of the hospital's total inpatient services. For fiscal year 1987 through fiscal year 1989, Congress reduced capital payments by fixed percentage amounts. For fiscal year 1989, the reduction is 15 percent. Under current law, Medicare would resume paying a full 100 percent of its share of capital costs during fiscal year 1990 and fiscal year 1991. By October 1, 1991, the Secretary is required to establish a system for including capital costs in the hospital's regular PPS payments.

Description of proposal

The proposal would extend the current 15 percent reduction and also impose a further 10 percent reduction, for a total reduction of 25 percent.

Selected Overpriced Procedures

Current law and background

Payment for physician services cannot exceed the prevailing charge for the service in the community. Subject to certain limits, the prevailing charge is based on historical charges for the service.

In OBRA '87, Congress identified 12 surgical services that could be considered to be overpriced. Effective April 1, 1988, the prevailing charges for these services were reduced by 2 percent plus up to an additional 15 percent according to a sliding-scale formula. The formula provided for greater reductions in areas with relatively high charges than in areas with low charges.

Description of proposal

The budget proposes additional reductions of 12 percent to the prevailing charges for overpriced procedures identified in OBRA '87 and for other services that the Secretary may identify as overpriced. This proposal is projected to produce savings of $100 million in fiscal year 1990.

Radiology, Anesthesiology, and Surgery Procedures

Current law and background

As noted above, payment for physicians' services are generally limited by prevailing charge levels.

Description of proposal

The budget proposes an across-the-board reduction of 8 percent for all radiology, anesthesiology, and surgery services. (The 8 percent reduction would apply to all surgical procedures other than the specific overpriced procedures as described in the preceding paragraph for which a 12 percent reduction would apply.) This proposal would save an additional $250 million in fiscal year 1990.

Physician Nonprimary Care Services

Current law and background

Annual increases in prevailing charge limits for physicians' services are limited by the increase in the Medicare Economic Index (MEI). The MEI is an inflation index which reflects changes in physician overhead costs and in general wage levels.

Description of proposal

The budget proposes an update policy that differentiates between primary care and all other services. Primary care services are defined as including physician visits provided in an office, nursing home, home, or emergency department setting.

Primary care services would receive full inflation increases based on the applicable MEI. Nonprimary care services would receive no prevailing charge update in 1990 and would be limited to a 1 percent annual increase in 1991 and 1992. According to the Administration, this proposal would save $375 million in fiscal year 1990.

Other Physician Payment Proposals

Current law and background

The budget includes three other legislative proposals related to physician payment.

OBRA '87 reduced reasonable charge limits for anesthesiologists supervising concurrent care provided by nurse anesthetists. Under this provision, base units for such procedures are reduced by 10 percent for 2 concurrent procedures, by 25 percent for 3 concurrent procedures, and by 40 percent for 4 concurrent procedures. There is, however, no reduction in the applicable time units.

Under current law, carriers have administrative discretion to establish differing prevailing charge limits for physicians of differing specialties who provide the same service. Some carriers have established multiple specialty-specific screens while others do not recognize any specialty differentials.

Under OBRA '87, customary charge screens for new physicians are set at 80 percent of the applicable prevailing charge limit.

Description of proposal

The budget proposes to extend current law to provide for reduction in payments to anesthesiologists for concurrent medical direction of multiple nurse anesthetists ($15 million in fiscal year 1990).

The budget also proposes to establish a payment ceiling on certain specialty-specific prevailing charges. The ceiling would be set at the recognized prevailing charge for the specialty that most frequently performs the services, or the specialty that is the recognized expert ($15 million in fiscal year 1990).

The budget proposes to establish limits on the Medicare customary charges of new physicians. Over the new physicians' first years of practice in a locality, the limit on the customary charges would be 80 percent of the applicable prevailing charges in the first year, increasing to 95 percent in the fourth. In the fifth and subsequent years, new physicians would have no special limits on their customary charges.

Clinical Laboratory Services

Current law and background

Clinical laboratory services are currently paid on the basis of area-wide fee schedules, subject to a nationwide cap equal to the median value of the area-wide schedules. Current law requires that, effective January 1, 1990, these area-wide fee schedules are to be replaced by a national fee schedule.

Description of proposal

The budget proposes to retain the current area-wide fee schedules, which in general are lower than the national fee schedules that would replace them. This proposal provides an estimated $190 million in savings in fiscal year 1990. (These savings are among those incorporated in the current law outlay estimates in the published budget.)

Durable Medical Equipment Rentals

Current law and background

OBRA '87 established fee schedules for six categories of Durable Medical Equipment (DME), effective January 1, 1989. The fee-schedules for five of the six categories are based on the average reasonable charges from a previous period. The fee-schedule for items in the sixth category, DME provided on a rental basis (such as wheelchairs and hospital beds), is based on average submitted charges, which according to the Administration are about 25 percent higher than average reasonable charges.

Description of proposal

The budget proposal would modify the fee schedule for the sixth category in such a way that it too is based on average reasonable charges. The Administration estimates that this proposal would save an estimated $100 million in fiscal year 1990. The proposal would also broaden beneficiary choice, allowing for lease/purchase arrangements in addition to rentals.

Oxygen and Oxygen Equipment

Current law and background

One of the six fee schedules and categories of DME established by OBRA '87 is for oxygen and oxygen equipment and supplies. Under current law, the fee schedule for these services is set at 95 percent of the local average reasonable charge in 1986, updated by the increase in the Consumer Price Index (CPI) for the last 6 months of 1987. In subsequent years, payment rates are updated by the CPI and regional fee schedules are phased-in to replace the local ones.

Description of proposal

The budget proposes to reduce current payments by 5 percent. According to a study conducted by the Office of the Inspector General, Medicare payments for oxygen are higher than the payments of other insurers. This proposal would save an estimated $30 million in fiscal year 1990.

Fee Schedules for Enteral Products

Current law and background

Enteral nutritional products and supplies are used by patients who, as a result of chronic illness or traumatic injury, cannot ingest food orally. Under current law, payment for enteral products is the lowest of the actual charge, the customary charge, the prevailing charge, a "lowest charge level" screen, and an inflation adjusted charge.

Description of proposal

The budget proposal would establish fee schedules for enteral products based on wholesale and retail price information, saving a projected $30 million in fiscal year 1990. The Administration believes this would result in payments that are closer to market prices.

Hospital Outpatient Department Services

Current law and background

Generally, payment for hospital outpatient department services are based on the hospital's reported costs. Special limits apply for ambulatory surgery services, for radiology and other diagnostic tests, and for clinical lab tests. Payments for services in hospital outpatient departments represent one of the fastest growing components of the Part B program.

Description of proposal

While not making a specific budget proposal (no savings in 1990), the budget reiterates a commitment to reduce spending for these services by 5 percent in 1991.

Part B Premium

Current law and background

From 1984 through 1989, the Part B premium has been set at 25 percent of program costs for the elderly and adjusted for interest income to provide for an appropriate contingency margin. The remaining 75 percent is covered by general revenues. In 1990, however, the method for calculating the premium will revert to the formula used prior to 1984. Namely, increases in the Part B premium will be limited by the Social Security cost-of-living adjustment (COLA).

Description of proposal

The budget proposes to extend the 25 percent rule, providing an offset to outlays of $617 million according to Administration estimates in fiscal year 1990. (Like other extensions of existing law, savings from this proposal were incorporated in the published current law fiscal year 1990 outlay estimates.) However, other Part B program savings are calculated to reduce the premium rate by $297 million. Overall, then, the increase in premium revenues would be a net $316 million.

Impact:

CBO PART B MONTHLY PREMIUM PROJECTIONS

	Calendar year—					
	1989	1990	1991	1992	1993	1994
Current law	31.90	33.90	37.80	41.10	43.60	45.80
Proposed law[1]	31.90	36.00	41.90	47.40	52.60	58.20
Difference		2.10	4.10	6.30	9.00	12.40

[1] The proposed law projections assume there are no other reductions in the Part B program.

State and Local Government Employees

Current law and background

Medicare coverage and Hospital Insurance taxes are mandatory for new State and local government employees hired on or after April 1, 1986. States have the option to extend Medicare coverage (without extending Social Security coverage) to State and local government employees hired before April 1, 1986.

See table 4 in the Social Security financing section for the percentage of State and local jobs covered under Social Security for each State. Currently, about 72 percent of all State and local government employees are covered under a voluntary agreement. Of the group not covered either on a voluntary or mandatory basis, it is estimated that approximately 75 percent ultimately receive Medicare coverage because of eligibility through a spouse or as a result of other covered employment. Medicare coverage (and the hospital insurance payroll tax) is mandatory for Federal employees.

For wages paid in 1989 to Medicare-covered employees, the total hospital insurance tax rate is 2.9 percent of the first $48,000 of wages (Code secs. 3101, 3111, and 3121). One-half of this tax is paid by the employee and one-half by the employer.

Description of proposal

The budget proposes to mandate Medicare coverage (and payment of Hospital Insurance taxes) for all State and local government employees, including those hired before April 1, 1986. The proposal would increase Medicare revenues by $2.03 billion in fiscal year 1990. (For budgetary purposes, this proposal, unlike the Part B premium proposal, is not treated as an offset against Medicare outlays, although it would have an eventual impact on the Hospital Insurance trust fund.)

Catastrophic Health Insurance

Current law and background

The Medicare Catastrophic Coverage Act of 1988 (P.L. 100-360) added additional benefits to Part A and Part B coverage and also created a new catastrophic drug benefit. Changes in hospital coverage took effect on January 1, 1989, while the other changes are being phased in over a 3-year period.

The new benefits are financed by a flat-rate premium added to the Part B premium and by a new supplemental premium collected from Part A enrollees through the Federal income tax system beginning in 1989. Revenues from the supplemental premium will be deposited in three new catastrophic trust funds, one each for hospital benefits, Part B benefits, and prescription drugs. Funds from the catastrophic Part B fund are to be transferred to the regular Part B fund as necessary to pay for the new Part B benefits, while the new drug benefits will be paid for directly from the drug fund. The law has no provision for any transfer of funds from the new catastrophic hospital insurance reserve fund to the regular Part A trust fund. Instead, monies will accumulate in this fund, while costs for the new Part A benefits will be paid from the regular Part A fund.

Description of proposal

The Administration's fiscal year 1990 budget includes a proposal to allow transfers from the reserve fund to the main Part A trust fund as needed to pay for the catastrophic benefits. This proposal has no budgetary impact, as it amounts to a shift of funds from one Federal fund to another.

SOCIAL SECURITY

Benefits for Adopted Children

Current law and background

Children adopted after a worker's eligibility for retirement or disability benefits must meet a special dependency test in order to be eligible for benefits. This test requires the child to be living with and receiving half his or her support from the worker in the year before retirement or the onset of disability. A worker's natural children are automatically eligible for benefits, regardless of whether they were born before or after retirement or the onset of disability.

Description of proposal

This proposal would end the disparate treatment of children adopted after the worker's entitlement to benefits and natural children born to a disabled or retired worker. It would make children adopted after the worker's entitlement eligible for benefits regardless of the child's dependency on the worker prior to retirement or the onset of disability.

CHILD CARE

Child Tax Credit and Refundable Child and Dependent Care Tax Credit

Current law and background

Earned income tax credit

Under present law, low-income workers with minor dependents are eligible for a refundable income tax credit of up to 14 percent of the first $6,500 of earned income for 1989 (sec. 32). The maximum amount of the credit is $910. The credit is reduced by an amount equal to 10 percent of the excess of the greater of (a) adjusted gross income (AGI) or (b) earned income over $10,250. The credit is not available to taxpayers with AGI over $19,360. The maximum amount of earnings with respect to which the credit may be claimed and the income level at which the phaseout of the credit begins are adjusted for inflation.

Earned income eligible for the credit includes wages, salaries, tips and other employee compensation, plus the amount of the taxpayer's net earnings from self-employment. Eligible individuals may utilize an advance payment system to receive the benefits of the credit in their paychecks.

Child and dependent care credit

Under present law, a nonrefundable income tax credit is allowed for up to 30 percent of a limited dollar amount of employment-related child or dependent care expenses (sec. 21). Eligible employment-related expenses are limited to $2,400 in the case of one qualifying individual ($4,800 in the case of two or more qualifying individuals). The 30-percent credit rate is reduced by one percentage point for each $2,000 (or fraction thereof) of the taxpayer's adjusted gross income (AGI) between $10,000 and $28,000. The credit rate is 20 percent for taxpayers with AGI in excess of $28,000.

The term "qualifying individual" means (1) a dependent of the taxpayer who is under age 13 and with respect to whom the taxpayer is entitled to claim a dependent exemption, (2) a dependent of the taxpayer who is physically or mentally incapable of caring for himself, or (3) a spouse of the taxpayer if the spouse is physically or mentally incapable of caring for himself.

Under present law, the dollar amount of expenses eligible for the dependent care credit of any taxpayer is reduced dollar for dollar, by the amount of expenses excludable from that taxpayer's income under the dependent care exclusion (sec. 129).

Description of proposal

Proposed child tax credit

Under the President's budget proposal, low-income families with at least one working individual would be entitled to claim a new refundable tax credit of up to $1,000 for each dependent child under age four. For each child under the age of four, families could claim a credit equal to 14 percent of earned income, with a maximum credit equal to $1,000 per child. Initially, the credit would be reduced by an amount equal to 20 percent of the excess of the greater of (a) adjusted gross income (AGI) or (b) earned income over $8,000. For three children, the credit would be reduced by 60 percent (3 times 20 percent). The credit would not be available to families with AGI or earned income greater than $13,000. In subsequent years, both the starting and end-points of the phaseout range would be increased by $1,000 increments. In 1994, the credit would phase out between $15,000 and $20,000.

The credit would be effective for taxable years beginning on or after January 1, 1990. Families would have the option of receiving the tax benefit through an advance payment system similar to the earned income tax credit. Under such advance payment system, the individual would file a claim with the individual's employer to receive the credit in the form of reduced income tax withholding. In the event that the amount of the credit exceeds total withholding, then the employer would make a payment to the employee in conjunction with the regular employee paycheck. The employer would reduce the amount of withholding it submits to the Treasury by the amount of the payment made to the employee.

Refundable child and dependent care credit

Under the President's budget proposal, the existing child and dependent care tax credit would be made refundable. Families could not claim both the new child credit and the child and dependent care credit with respect to the same child, but could choose the larger of the two credits. The refundable child and dependent care credit would be effective for taxable years beginning on or after January 1, 1990.

OTHER PROGRAMS

The Bush administration budgetary proposals for other programs, namely Trade Adjustment Assistance (TAA), Aid to Families with Dependent Children (AFDC), Child Support Enforcement (CSE), and foster care, are unclear. There is some evidence to suggest that the Bush administration has endorsed the Reagan proposals. The budgetary savings of these proposals are shown in tables 27 and 28 of section 1 of part III. There is also evidence to suggest they have not endorsed those proposals but have included entitlement benefits under TAA, State AFDC administrative costs, and funding for the foster care program in the category of programs subject to a freeze. The precise proposal of how these entitlement programs would be reduced has not been specified.

In addition, administrative costs for the Social Security and Medicare programs are also in this category subject to a freeze. Again, the exact size and nature of these proposals are unclear.

Finally, the administration has proposed funding of $350 million for the JOBS program. The language submitted in the Reagan budget, suggests that this is not to be funded on an entitlement basis as the Family Support Act of 1988 (Public Law 100-485) mandated. This language has been unaltered by the Bush administration.

Section 3. Description of the Balanced Budget and Emergency Deficit Control Act of 1985 as Amended (Gramm-Rudman-Hollings)

OVERVIEW

"The Balanced Budget and Emergency Deficit Control Act of 1985" (referred to as the "Act") mandates annual budget deficit reductions in order to achieve a balanced budget by 1991 (later amended to 1993).

The principal enforcement mechanism of the Act is "sequestration," a procedure requiring automatic reductions in Federal spending programs in the event that annual deficit targets are not met by congressional action.

On February 7, 1986, a special three-judge panel of the U.S. District Court ruled that the role of the Comptroller General in the preparation of "sequestration" reports was unconstitutional as it violated the principle of separation of powers. This ruling was upheld by the Supreme Court on July 7, 1986. According to the Court, the powers conferred upon the Comptroller General are executive powers which cannot constitutionally be exercised by an officer removable by Congress.

To correct the constitutionally flawed Act, Congress passed the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (P.L. 100-119) reinstating automatic sequestration through 1993 and providing the Office of Management and Budget (OMB) with responsibility for the reports that are the basis of the Presidential sequestration orders. The law's maximum deficit amounts (MDAs) or "targets" were also adjusted to achieve a balanced budget by 1993.

MAXIMUM DEFICIT AMOUNTS

[In billions of dollars]

Fiscal year:	
1988	144
1989	136
1990	100
1991	64
1992	28
1993	0

If the deficit is estimated to exceed the maximum level by any amount in 1993, or by more than $10 billion in 1989-1992, an automatic spending reduction procedure is triggered to eliminate the excess deficit through the sequestration of budgetary resources. Except for trust and special funds, this involves the permanent cancellation of new budget authority and other authority to obligate and expend funds.

In 1988, the law limited sequestration to $23 billion. In 1990, sequestration will occur if the deficit is greater than $110 billion ($100 billion MDA plus the $10 billion margin). Whether sequestration actually takes place will depend entirely upon OMB's determination of the deficit on August 25 and October 15. The economic and technical assumptions are projected on July 15 and cannot change thereafter in either the August or October report. All assumptions become known in the August 25 OMB report and may not change when estimating the deficit on October 15. Only changes in laws enacted and regulations promulgated as final between August 25 and October 15 can change the August 25 estimate of the deficit. For fiscal year 1989, sequestration was limited to the lesser of the amount needed to reach the target, or $36 billion. For the remaining years 1990–1993, sequestration equals the amount needed to reach the MDA.

Sequestration may only be triggered once per fiscal year and any sequestration order issued remains in effect for that fiscal year only. COLA reductions last for one year from the time the reduction takes place, and there are no catch-up provisions. (COLAs were last reduced in 1986 and are now largely exempt.) The process must start all over again to determine whether a sequestration order would be issued in the next fiscal year.

SEQUESTRATION TIMETABLE

Unlike the original law, the revised Act requires separate reports from OMB and the Congressional Budget Office (CBO) regarding the level of the deficit and the amount of required sequestration. The timetable for the entire process is shown in table 1.

Prior to the reports, the President must notify Congress (by August 15), if he intends to use authority given him in the Act to exempt military personnel from sequestration. Then, on August 20 and 25 respectively, CBO and OMB issue initial sequestration reports on the deficit and MDA based on laws and regulations promulgated as final on August 15.

The report contains the following for such fiscal year:

1. The estimated levels of total outlays and total revenues, the amount of any excess deficit, and whether such excess is greater than $10 billion (zero in fiscal year 1993).
2. The estimated rate of real economic growth (for each quarter of such year and for each of the last two quarters of the preceding year); and whether negative real economic growth for two or more consecutive quarters will occur.
3. The base from which reductions (sequestrations) are to be made (if the deficit is $10 billion over the MDA [$0 in fiscal year 1993]) by account and by program, project, and activity (PPA) within each account for defense; and the amounts and percentages by which such accounts and PPAs must be reduced during such fiscal year to eliminate the excess.

4. The amount of automatic spending increases (COLAs) which are scheduled to take effect in programs with such increases, the amount and percentage by which such increases are to be reduced, the amount of deficit excess eliminated by such reductions, and the percentage (if any) of such increases after the reductions.

5. The amount of savings achieved in programs with special rules.

On August 25, the President must issue the sequestration report or issue the same order indicating no reductions are needed. The order is to be precisely based on the OMB director's August 25 findings. The reductions begin at the start of the fiscal year, October 1.

The President must transmit to Congress a message containing the same information as required in the OMB report, and specifying within each defense and nondefense account for each program, project or activity, or budget account activity, the base from which such sequestration is made and the amounts which are to be sequestered from each PPA. The President may also submit such other supporting details as he deems appropriate. This message is referred to all committees with jurisdiction over programs, projects, and activities affected by the order.

On October 10, CBO issues a final report. OMB makes its report on the 15th. Both are based on final laws and regulations in effect as close as possible to the report day.

On October 15, the President issues the final budget reductions based on OMB's findings. However, within 15 days after the order he may propose to Congress a plan to permit greater flexibility within the defense budget to accommodate the sequestration cuts. He may also send his alternative to sequestration. The President cannot use the defense flexibility unless Congress enacts it into law.

The Comptroller General continues to retain an auditing role in the amended law. By November 15, the Comptroller General must certify that the President and OMB complied with the law. He may make suggestions for improving the sequestration process.

In the revised Act, Congress retained several alternative responses to sequestration. Two days after the final OMB report, the Senate may begin producing an alternative to sequestration similar to a fast track reconciliation bill. This has never been used.

In addition, the amended law now permits the leaders of both Houses to introduce a joint resolution amending or eliminating sequestration up to 10 days after the last OMB report. It may proceed through Congress as a privileged bill on a somewhat expedited basis but still requires a Presidential signature.

The 1987 revision retained the procedures of the Temporary Joint Committee on Deficit Reduction which may issue the report triggering the sequestration order if any part of the reporting process is ruled unconstitutional. Within 5 calendar days after receiving the CBO report, the Temporary Joint Committee on Deficit Reduction must report a joint "sequester" resolution setting forth the contents of the CBO report without change. The House and Senate are required to act on this joint "sequester" resolution within 5 legislative days of its having been reported. Upon enactment of the joint resolution, the President is required to issue a sequester order that conforms to the matter in the joint resolution. It must eliminate the full amount of the excess deficit in strict accordance with the requirements of the Act, e.g. special rules, exempted program, 50/50 defense/nondefense split.

At any time, the Congress may suspend, by joint resolution, the entire Gramm-Rudman Act if recessionary conditions exist as specified by the law. If either CBO or OMB projects real economic growth at less than zero for two consecutive quarters or if the Department of Commerce reports two quarters of actual growth to be less than 1 percent, the conditions are met.

TABLE 1.—TIMETABLE FOR SEQUESTRATION PROCEDURES

Action	Fiscal years 1990–1993
President submits to Congress the mid-session budget report (establishing the economic and technical assumptions to be used in sequestration).	July 15.
Presidential notification regarding military personnel accounts..	August 15.
Initial OMB/CBO snapshot	August 15.
CBO issues its initial report to OMB and Congress	August 20.
OMB issues its initial report to the President and Congress	August 25.
President issues initial order	August 25.
President transmits to Congress a detailed message regarding the initial order.	Within 15 days after the order is issued.
Fiscal year begins and initial order becomes effective	October 1.
CBO issues its revised report to OMB and Congress	October 10.
OMB issues its revised report to the President and Congress	October 15.
President issues final order (which becomes effective immediately).	October 15.
Majority Leader in each House shall introduce a joint resolution which affirms any modifications in defense programs proposed in the President's notification report if the report is timely submitted (the joint resolution is considered under expedited procedures and is amendable).	Introduced within 5 session-days after report is submitted by President (but before October 20).
Majority Leader in each House may introduce a joint resolution which modifies the final order (the joint resolution is considered under expedited procedures and is amendable).	Introduced within 10 session-days after revised OMB report is submitted.
President transmits to Congress a detailed message regarding the final order.	Within 15 days after the order is issued.
Comptroller General issues compliance report	November 15.

SEQUESTRATION

"Sequestration" is the formula reduction of "budgetary resources" required by the Act. It occurs, once each fiscal year, if and only if OMB projects that the MDA will be exceeded by more than a specified margin. The margin is $10 billion in fiscal 1989–1992 and zero in fiscal 1993.

Half the reductions are taken from defense and a half from nondefense. The reductions are translated into percentages that are applied to the budgetary accounts.

THE BUDGET BASELINE

The baseline calculations, consisting of spending and tax laws, and driven by economic and other estimating factors, determine total outlays, revenues, and the deficit.

The Reaffirmation Act of 1987 requires two sets of baselines in order to determine (1) the amount of unachieved deficit reduction and (2) the excess over the target. The first baseline is constructed in January and the second on the snapshot dates in either August or October. The changes between the two measures the effects of new laws and final regulations. The only exception are Federal pay raises which are scored differently in each base.

The revised law's baselines resemble the OMB's current services and CBO's baseline projections. The Congress also resolved a number of technical differences between OMB and CBO and restricted the deviations OMB can make from certain CBO estimates.

In constructing the baselines, the following rules are employed:

1. Only enacted law is considered. The Directors do not attempt to anticipate the outcome of legislation still working its way through Congress. Enacted entitlement law, including any required COLA, is projected at the full estimated cost. Appropriated entitlements are also fully funded and advanced farm deficiency and land payments are assumed.

2. The Directors assume the expiration of tax laws and direct spending laws (such as entitlements) that are scheduled to expire during the fiscal year in question. The Act specifies that, not withstanding the general rule, excise taxes deposited into trust funds are not assumed to expire, and CCC crop price supports and contract authority to the transportation funds are not assumed to expire.

3. If a 12-month appropriation for a discretionary program has not been enacted, the Directors must use "prior year appropriations". This would include regular appropriations as modified by enacted supplementals or rescissions and the final sequestration order from the previous year, if any. Although a full-year continuing appropriation is counted, a temporary continuing appropriation is not considered for the purpose of the budget base. The base is then increased using the GNP price deflator and an allowance is made for Federal pay raises. Seventy percent of Federal pay costs are to be similarly inflated and then reduced using a 22 percent absorption rate.

4. In estimating outlays, the Directors do not consider any deferrals reported pursuant to the Impoundment Control Act.

5. Asset sales and loan repayments are not to be counted in the baseline, or as deficit reduction with the exception of those mandated prior to September 1987. Savings resulting from the transfer of outlays or receipts to the next year do not comprise scoreable savings.

6. In choosing economic and technical assumptions for all the data in the initial report, the OMB may use the economic and technical assumptions of the President's July 15 mid-session review. The July 15 report must also contain a preliminary estimate of the excess deficit and net deficit reduction.

7. OMB deviations from CBO estimates of aggregate outlay reductions, total sequesterable resources, and resources to be sequestered of more than $5 million are to be detailed and explained. OMB must also calculate the required outlay reductions using CBO methodologies. OMB is further restricted from using outlay rates one-half of one percent different from the previous year, and Medicare outlay rates one percent different from the fiscal year's current services estimate.

8. The receipts and outlays of the Social Security Trust Fund are counted even though they are off-budget.

BUDGETARY RESOURCES

The required reductions in outlays are not made directly; rather, they are to be achieved by the permanent cancellation of budget authority and other authority to obligate and expend funds—referred to under Public Law 99–177 as sequestration. For defense programs, sequesterable budgetary resources are new budget authority provided for the budget year and unobligated balances of budget authority provided in previous years. For nondefense programs, the sequesterable budgetary resources are new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and spending authority as defined in section 401(c)(2) of the Congressional Budget Act of 1974 (spending authority not subject to the annual control of the appropriations process). Included in this definition of spending authority are all entitlements, federal payments financed by offsetting collections that are credited to budget accounts, and various permanent appropriations. A fuller discussion of budgetary resources occurs later in this section.

Not all budgetary resources are subject to sequestration. The Act creates four different categories of programs.

1. **Completely Exempt Programs.** Other than their Federal administrative costs, the following programs are completely exempt:

Net Interest;
Social Security retirement and disability;
Railroad Retirement Tier I (the Social Security equivalent);
Dual Benefits Payments;
Veterans Compensation and Pensions;
Federal military and civilian disability and retirement COLA's;
State Unemployment Compensation;
Earned Income Tax Credit;
Selected "Low-Income" programs; AFDC, SSI, Food Stamps;
Child Nutrition, WIC, and Medicaid;
Federal power administrations: TVA, BPA, WAPA, SWAPA, SEAPA, and APA;
Postal Service Fund (but not the Federal subsidy);
Accounts paying claims against the U.S., including Claims, Judgments, and Relief Acts; Defense Claims; Payments to Copyright Owners; Eastern Indian Land Claims; Vietnam and U.S.S. *Pueblo* POW Claims; and Soldiers and Airmen's Home Claims;

Constitutionally protected salaries: Compensation of the President, and Salaries of Article III Judges;

Non-U.S. funds of three types: Foreign Military Sales Trust Fund; activities from private bequests, donations, or voluntary contributions; and appropriations for D.C. (but not the Federal subsidy);

Payments from one Federal account to another, since these do not constitute Federal outlays (primarily, sequestration of these resources can only occur once);

Veterans Insurance, Rehabilitation and Burial Funds;
Certain payments to Panama;
Payments to U.S. Territories;
Payments under the Compact of Free Association;
Comptroller of the Currency;
Federal Deposit Insurance Corporation;
Federal Home Loan Bank Board;
Federal Savings and Loan Insurance Corporation;
National Credit Union Administration;
Federal Thrift Retirement Board.

2. **Partially protected programs.** These programs are of two types: COLA programs and Special Rule programs. The reductions are limited as described below:

COLA programs, also known as Automatic Spending Increases, may have their COLAs reduced or frozen but their benefit base is protected, that is, the COLAs may not become negative. The programs with automatic spending increases subject to sequestration by the Act as amended are the National Wool Act, Special milk program, and Vocational rehabilitation programs.

Special Rule programs may be cut by specified, limited percentages or amounts. This section describes these special rules.

Guaranteed Student Loan Program

The Act requires two changes in the guaranteed student loan (GSL) program to occur automatically under sequestration. First, the statutory factor for calculating the special allowances for lenders will be reduced by 0.40 percentage points in the first year of loan. Second, a student's origination fee will increase by 0.50 percentage points. In both cases, sequestration affects only GSL loans made during the applicable fiscal year, but after the order is issued.

Foster Care and Adoption Assistance Programs

The Act limits the amount available for sequester in the foster care and adoption assistance programs to increases in foster care maintenance payment rates or adoption assistance payment rates taking effect during the current fiscal year.

Medicare

The sequestration reductions in the medicare program are to be achieved by reducing payment amounts for covered services. No changes in co-insurance or deductible obligations are to be made, and covered services are unaffected under a sequestration order. Under such an order, each payment amount would be reduced by a maximum of 2 percent for each year in which there is sequestration, relative to whatever level of payment would otherwise be made under medicare law and regulation. The reduction would be proportionately reduced in any year in which the excess deficit is small enough to permit a smaller reduction.

Veterans' Medical Care and Other Health Programs

The Act limits reductions in budget authority for veterans' medical care, community and migrant health centers, and Indian health services and facilities to 1 percent in fiscal year 1986 and 2 percent in any subsequent fiscal year.

Child Support Enforcement Programs

In the child support enforcement (CSE) program, the Act provides that sequestration of entitlement payments to states, including incentive payments from the assistance payments account, is to be accomplished by reducing the federal matching rates for state administrative expenses.

Unemployment Compensation Programs

The Act provides that the following items are not available for sequester: regular state unemployment benefits, the state share of extended unemployment benefits, benefits paid to former federal employees and former members of the armed services, and loans and advances to the state and federal unemployment accounts. The federal share of extended benefits, federally paid benefits, including benefits paid under the Railroad Unemployment and Sickness Insurance program, and administrative expenses are available for sequester. The Act also provides that states may, without penalty, reduce their share of federal-state extended unemployment benefits if the federal share of benefits is reduced by a sequester order.

Commodity Credit Corporation

The Act requires that payments and loan eligibility under any contract entered into by the Commodity Credit Corporation (CCC) after a sequester order has been issued for a fiscal year be subject to a percentage reduction. The Act requires that reductions for all farm commodities supported by the CCC be made in a uniform manner, including all noncontract programs, projects, and activities within CCC's jurisdiction. The Act further stipulates that outlay reductions in the post-sequester year that are the result of contract adjustments in the sequester year should be credited to the overall outlay reduction required in the sequester year. The actual amount of savings realized in each year will depend upon how the sequester is implemented for the various CCC programs.

Federal pay

The Act provides that rates of pay for civilian employees (and rates of basic pay, basic subsistence allowances, and basic quarter allowances for members of the uniformed services), or any scheduled pay increases, may not be reduced pursuant to a sequestration order. Budgetary resources available for federal pay, however, will be subject to sequestration as part of the reduction of administrative expenses.

Insurance and Guaranteed Loan Programs

These programs may have their new activities subject to sequestration, but costs associated with insurance claims or with loan defaults are exempt. The Act identifies 46 such programs. In general, these programs support themselves through premiums, so that their net Federal cost is near zero.

For credit programs, the governing measures of sequesterable budgetary resources are direct loan obligations and loan guarantee commitments. The Act requires de facto limitations on both types of new credit activity. This was modified by amendment number 4 in Table 4.

Military personnel accounts

The Act gives the President the authority to exempt all or part of the military personnel accounts from sequestration. The President used this authority in 1986 and again in the 1988 and 1989 reports.

3. **Prior-year outlays from otherwise nonexempt programs.** Although these programs are subject to across-the-board sequestration, their prior-year outlays generally are not part of the calculations. Just about $100 billion in defense outlays, and a nearly identical amount in nondefense outlays, are thus excluded from the sequestration calculations. However, new funds for the programs in question are completely available for sequestration.

Specifically, for nondefense programs the Act removes from the calculations all outlays resulting from budgetary resources that were provided in prior fiscal years. Only new budgetary resources are sequesterable, and only the resulting "new" outlays are included in the calculations.

Existing contracts and obligated balances in nondefense and defense programs are exempt from sequestration.

4. **Offsetting receipts.** These receipts are nontax income of the U.S. deposited in the Treasury's General Fund, and are accounted as "negative spending." An example is the income generated by Outer Continental Shelf Rents and Royalties. The Act exempts such income from sequestration calculations, since sequestration is intended to cut spending, not to increase user fees or speed up auction schedules.

ILLUSTRATIVE 1990 CALCULATIONS

1. Budget baseline

Table 2 provides further detail on the OMB and CBO baseline outlay estimates for 1990. About $117 billion of estimated 1990 outlays for defense programs, representing about 39 percent of total defense spending, are associated with budgetary resources subject to an across-the-board percentage reduction. Military personnel accounts are assumed to be exempted by the President as in the past.

According to OMB estimates, about $234 billion, or a little more than one-fourth of estimated outlays for nondefense programs, is associated with sequesterable budgetary resources. Only $1 billion in outlays are for programs with automatic spending increases. Another $124 billion of outlays is associated with certain special rule programs, of which the largest is Medicare. The Act also limits the extent of spending reductions for these programs. Approximately $117 billion in estimated 1990 nondefense outlays are associated with budgetary resources subject to an across-the-board percentage reduction. Nearly $650 billion, almost three-fourths of total estimated outlays for nondefense programs, is exempt from sequestration by the Act. As shown in table 2, the major exempt program outlays are mostly for social security and net interest. The remaining portion of nondefense outlays results from budgetary resources provided in previous years or prior legal obligations.

TABLE 2.—OMB AND CBO COMPOSITION OF BASELINE OUTLAYS FOR 1990

[Dollars amount in billions]

Category	CBO revised		OMB	
	Estimate	Percent of total	Estimate	Percent of total
Defense programs: [1]				
Subject to across-the-board reduction	$119.8	9.9	$116.7	9.9
Exempt from sequestration [2]	183.3	15.1	183.9	15.5
Subtotal, defense programs	303.1	24.9	300.5	25.4
Nondefense programs:				
Subject to sequestration:				
Certain programs with automatic spending increases [3]	1.6	0.1	1.3	0.1
Certain special rule programs [4]	128.4	10.6	123.6	10.4
Subject to across-the-board reduction [5]	111.1	9.1	108.7	9.2
Subtotal, subject to sequestration	242.1	19.8	233.6	19.7
Exempt from sequestration:				
Social security	246.7	20.3	244.5	20.7
Federal retirement, disability, and workers compensation	66.1	5.4	66.0	5.6
Earned income tax credit	3.9	.3	3.8	0.3
Low-income programs [6]	84.6	7.0	79.9	6.8
Veterans compensation and pensions	14.9	1.2	15.4	1.3
State unemployment benefits	14.6	1.2	14.0	1.2
Offsetting receipts	−61.4	−5.1	−63.0	−5.3
Net interest	182.1	15.0	171.1	14.5
Other [2]	119.2	9.8	117.8	9.9
Subtotal, exempt from sequestration, nondefense	670.7	55.2	649.5	54.9
Subtotal, nondefense program	911.8	75.1	883.1	74.6
Total	1,214.5	100.0	1,183.6	100.0

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[1] Budget function 050 excluding FEMA programs.

[2] Outlays from obligated balances and military personnel.

[3] National Wool Act, special milk, and vocational rehabilitation programs.

[4] Guaranteed student loans, foster care and adoption assistance, medicare, veterans medical care, and other health programs.

[5] Excludes 1991 outlays for the Commodity Credit Corporation.

[6] Family support payments, child nutrition, medicaid, food stamps, SSI, WIC, CSFP, and Nutrition assistance to Puerto Rico.

2. Sequestration calculations

The Act establishes the following steps for the sequestration calculations. First, the deficit excess is calculated by subtracting the maximum amount from the estimated deficit in the budget base. One-half is assigned to defense programs (budget accounts in function 050) and the other half to nondefense programs.

Second, the total amount of outlay savings from eliminating automatic spending increases is calculated. All savings from eliminating automatic spending increases in three specific programs—the National Wool Act, the special milk program, and vocational rehabilitation—are applied to the required reduction in outlays for nondefense programs.

Third, the amount of outlay savings to be obtained by applying four special rules is calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare, and certain health programs, and are described in a later section of this report. The estimated savings from these four special rules are applied toward the required spending reductions in nondefense programs.

The remaining reductions in defense programs and nondefense programs must be taken on a uniform percentage basis, computed separately for each category. The uniform reduction percentages are computed from outlay estimates. The remaining outlay savings to be achieved in defense and nondefense spending are divided by the estimated outlays associated with sequesterable budgetary resources in each category. These uniform percentages are then applied to all of the remaining sequesterable budgetary resources (budget authority, credit authority, and other spending authority) for defense and nondefense programs.

In the event a short-term continuing resolution is in effect when the final sequestration order is issued, the amended law establishes a slightly different process for sequestration. A pro rata share of the dollar amount is applied to the continuing resolution then in place, and any subsequent short term appropriations. The total pro rata shares apply toward the total sequester. If the full year bill appropriates a level lower than the account's baseline, credit is given for the sequestrations below baseline.

For each $10 billion change in the excess deficit, the reduction percentage for defense programs would change by about 4.3 percentage points, and for nondefense programs by about 4.6 percentage points.

Estimates of across-the-board reductions at this time (March, 1988) are merely previews. Ultimately, any cutbacks will depend on estimates made by the Office of Management and Budget in August and October. By then, of course, the economic outlook may have changed.

In January, under the specifications set forth in the Act, OMB estimated a deficit for 1990 of $126.1 billion. This exceeds the $100 billion target by more than $10 billion and would result in an 11.2 percent reduction for defense programs and a 9.8 percent reduction for nondefense programs.

In February, however, CBO estimated the 1990 deficit at $146 billion, $46 billion above the Act's target. Cutting $46 billion wholly through sequestration would require reductions of approximately 19.3 percent in defense programs (assuming all military personnel are exempted) and 17.8 percent in nondefense, nonexempt programs. Table 3 illustrates these calculations for fiscal year 1990 under CBO and OMB assumptions.

TABLE 3.—CBO AND OMB CALCULATIONS OF AN ILLUSTRATIVE SEQUESTRATION FOR 1990

[Outlays in billions of dollars]

	CBO		OMB	
	Defense	Nondefense	Defense	Nondefense
Total required outlay reductions	23.1	23.1	13.0	13.0
Savings from eliminating automatic spending increases		(1)		(1)
Savings from the applications of special rules:				
Guaranteed Student Loans		(1)		(1)
Foster care and adoption assistance		(1)		(1)
Medicare		1.8		1.5
Other health programs		.2		0.2
Remaining reductions required	23.1	21.1	13.0	11.3
Estimated sequestration outlay base	119.8	118.4	116.7	115.3
Uniform reduction percentages	[2] 19.3	17.8	[3] 11.2	9.8
Required spending authority reduction [4]	52.0	43.6		

[1] Less than $50 million.

[2] Assumes the exemption of $78 billion of military personnel outlays. Were personnel not excluded, the defense percentage reduction would be 11.8 percent.

[3] Assumes the exemption of military personnel outlays. Including personnel costs lowers the percentage to 6.7 percent.

[4] Budget authority, obligation limitations, entitlement authority, and other section 401(c)(2) spending authority in the case of nondefense programs and budget authority and unobligated balances in the case of defense programs associated with the outlay reductions.

Source: Congressional Budget Office and Office of Management and Budget.

FURTHER DESCRIPTION OF THE ACT

Budgetary resources further defined

Budgetary resources allow an agency's budget officer to incur financial obligations. Budgetary resources are the legal authority to sign binding service or procurement contracts, to hire personnel, to make grants, or to commit to any other payment required by law.

Budgetary resources are most commonly measured by new budget authority (usually called "BA"). Most new budget authority is provided in annual appropriation acts. The remainder is provided automatically by substantive law, and is called "permanent budget authority" or "permanent appropriations." But, for the purposes of the Act, budgetary resources go beyond new budget authority.

The Act treats defense programs differently from nondefense programs. For defense, the sequesterable budgetary resources are (1) new budget authority, and (2) unobligated balances of prior budget authority.

For nondefense programs, there are five different types of budgetary resources that are subject to sequestration:

(1) new *budget authority;*

(2) gross levels of new *direct loan* obligations;

(3) other *obligation limitations* (generally, limitations on programmatic or administrative obligations from trust or revolving funds);

(4) "spending authority defined in Sec. 401(c)(2) of the Congressional Budget Act" (commonly known as "direct spending" or "*backdoor spending*"); and

(5) new loan guarantee commitments.

Loan guarantee commitments are not considered to require budget authority or produce outlays, since they merely guarantee that one private party, a borrower, will repay a loan to another private party, a lender. However, if the borrower defaults the U.S. must bear the costs. Default payments are Federal outlays, but are exempt from sequestration.

Sequestration of loan guarantees reduces the government's contingent liability. In the long run, this would lead to lower default payments. Since most loan guarantee programs are self-financed (up-front premiums cover expected defaults), sequestration will have the shortrun effect of slightly reducing Federal income from premiums.

Programs with two types of budgetary resource are numerous. For example, the Federal-aid highway program receives new budget authority (in the form of contract authority) and has an obligation limitation. Many direct loan programs receive new budget authority (in the form of borrowing authority) though they are controlled by loan limitations. Some entitlements (a common form of backdoor spending) receive annual appropriations of budget authority in appropriation bills.

In general, if a program is controlled by both definite budget authority and another budgetary resource, then both budgetary resources are reduced through sequestration. If a program receives indefinite budget authority ("such amounts as may be necessary") but is controlled by a different budgetary resource, such as a direct loan limitation, then only the latter resource is directly reduced through sequestration. The amount of indefinite budget authority will automatically be reduced as a consequence, though not necessarily by the same amount or percentage.

Program, Project, or Activity (PPA). The Act requires that, in implementing sequestration, the President cut each "program, project, or activity" (PPA) within a budget account by the same percentage. There are single-purpose accounts as well as multi-purpose accounts. For example, the Budget Appendix lists nine "activities" within the Training and Employment Services account: Block Grant to States; Summer Youth Employment; Dislocated Worker Assistance; Native Americans; Migrant and Seasonal Farmworkers; Job Corps; Veterans Employment; National Activities; and Trade Adjustment Assistance. The intent is that sequestration reduce each PPA by the same percentage.

The term "program, project, and activity" does not have a statutory definition. Instead, the Act specifies that, for accounts funded through annual appropriations, the term is to be defined each year in appropriation bills or in their accompanying reports and other related documentation. For accounts not funded by annual appropriations, PPAs are defined by the budget authority listing in the Budget Appendix.

For both defense and nondefense accounts, the amounts cut from each PPA are not specified until the Presidential order and accompanying message are issued.

In applying the percentage reduction to each PPA, the President is not given new authority to alter the relative priorities in the Federal budget that are established by law and no person who is or becomes eligible for benefits under any provision of law shall be denied eligibility as a result of sequestration. For example, this meant that the reduction in low-income home energy assistance was not uniform across states because authorizing law for this program contained certain hold-harmless provisions.

FEDERAL ADMINISTRATIVE COSTS

The Act provides that Federal administrative expenses incurred in connection with any program, activity, or account shall be subject to reduction under a sequester order. Any exemption, exception, limitation, or special rule is not intended to include these Federal administrative or operating expenses unless it does so by specific reference.

Under this provision, administrative or operating expenses of all the departments and agencies of the Federal government, including independent agencies, would be subject to reduction unless specifically exempted. This provision includes programs and agencies that are self-financing and that do not receive appropriations.

The term administrative or operating expenses is intended to include obligations for items such as personnel compensation, travel, transportation, communication, equipment, supplies, materials, and other services. It is not the intent of the conferees to include payments, loans, or other benefits resulting from prior legal obligations under the term administrative or operating expenses.

For purposes of this section, payments made by the Federal government to reimburse or match administrative costs incurred by State or local governments, such as the Federal matching payments for State AFDC, costs for State disability determination units and Medicaid administrative expenses shall not be considered administrative expenses.

CONGRESSIONAL RESPONSE

In the Senate, a procedure exists to allow the Senate Budget Committee to affirm, in whole or in part, the sequestration order issued after enactment of a joint sequestration resolution, and provide for a congressional response using a reconciliation-type process involving instructions to committees. The Senate Budget Committee would have the authority to include in a reconciliation bill pursuant to those procedures actual legislative language fulfilling the instruction to a committee which completely fails to comply.

These procedures are necessary to enable the Senate to respond quickly to an order by limiting debate and amendments which would not be limited under normal Senate procedures. Since the House has the ability to take legislation through the Committee on Rules, which can limit debate and amendments, there are not specific procedures for responding to an order.

MODIFICATION OF A PRESIDENTIAL ORDER

In the Reaffirmation Act, Congress provided itself with an expedited procedure to modify or cancel the most recent sequestration order.

Within 10 calendar days afer the OMB director issues his final report, it is the exclusive right of either majority leader to introduce a joint resolution (thereby requiring a Presidential signature) that directs the President to alter or cancel the sequestration.

No other joint resolution may be considered under privileged and expedited procedures for up to eight days after introduction. The joint resolution is not referred to committee. Four hours of debate are allowed in the House and ten in the Senate.

JUDICIAL REVIEW

The Act authorizes expedited judicial review of constitutional questions raised by a Member of Congress or any other adversely affected person. Legal action may be brought by a Member of Congress in the United States District Court for the District of Columbia on the grounds that any sequestration order that might be issued violates the Constitution or that the Presidential sequestration order does not comply with requirements of the Act. The measure specifically provides that such an action will be heard by a three-judge panel of the U.S. District Court for the District of Columbia, and authorizes an immediate appeal to the U.S. Supreme Court.

If a court of competent jurisdiction finally determines that an order issued by the President under the Act for any fiscal year does not comply with the sequestration procedures, the President must, within 20 days after such a determination is made, revise the order in accordance with the judicial determination. If the Presidential order does not comply with the sequestration procedures on the claim or defense that the constitutional powers of the President prevent such sequestration and such claim or defense is finally determined by the United States Supreme Court to be valid, then the entire order for such fiscal year is null and void.

An order by a court granting declaratory or injunctive relief from a Presidential sequestration order, including relief permitting or requiring expenditure of sequestered funds, does not take effect during the pendency of the action or an appeal until the court has entered its final order disposing of the action.

AMENDMENTS TO THE CONGRESSIONAL BUDGET ACT

In addition to establishing a new procedure, "sequestration," as part of the Executive and Congressional budget processes, the Act also substantially amended the existing budget process. Most of the reforms codify congressional budget practices that have evolved since the original Congressional Budget Act was adopted in 1974. However, some are designed to enforce the maximum deficit amounts set forth in the Budget Act.

The Act requires the President to submit a budget which does not exceed the maximum deficit amount for the applicable fiscal year. Further, congressional budget resolutions must also be within the maximum deficit amount of the applicable fiscal year. (This prohibition is enforced by points of order in the House and Senate.)

As noted earlier, the Act provides that a budget resolution cannot contain a deficit level in excess of the MDA for the applicable fiscal years. This prohibition applies to the committee-reported budget resolution, any amendments thereto, or conference report thereon. In the House, three-fifths of Members present and voting are required to waive this point of order against a *conference report* on a budget resolution. This is the only super-majority waiver requirement created by the Act applicable in the House of Representatives.

The revenues and disbursements of the Social Security program are included in the calculation of the deficit for purposes of the congressional budget resolution, the President's budget, and the excess deficit. For all other purposes Social Security is considered off-budget. A new point of order is established which prohibits any changes to the Social Security program to be included in a reconciliation bill pursuant to a budget resolution (this prohibition also applies to a Senate-originated response to sequestration.)

The Budget Act is amended to establish spending controls at the subcommittee or program level. Legislation is subject to a point of order if it exceeds the appropriate committee's section 302(b) subdivision of new discretionary budget authority, new entitlement authority or credit authority. (In the Senate the point of order is based upon budget authority and outlays.) Under current law this subdivision is not binding.

Other amendments to the Budget Act codify existing congressional practices. For example, the Budget Act is amended to require adoption of only one annual budget resolution (although it may be revised at any time). The content of the resolution is expanded to include advisory budgetary levels for the two succeeding fiscal years, and reconciliation instructions for three fiscal years. Section 302(a) of the Budget Act is amended to reflect how the House and Senate Budget Committees technically allocate the spending authority in the budget resolution to the committees of jurisdiction. In the House, a committee is "held harmless" from certain points of order if it is within its section 302(a) total allocation of new discretionary budget authority and new entitlement authority.

The scope of the budget process is expanded to establish binding levels on credit authority, to require new credit authority to be subject to the appropriations process, and to define new types of "backdoor" spending authority.

Finally, the timetable for the budget process is accelerated. In addition to the timetable below, House rules are amended to require early organization of the House.

CONGRESSIONAL BUDGET PROCESS TIMETABLE

On or before:	
First Monday after January 3	President submits his budget.
February 15	Congressional Budget Office submits report to Budget Committees.
February 25	Committees submit views and estimates to Budget Committee.
April 1	Senate Budget Committee reports concurrent resolution on the budget.
April 15	Congress completes action on concurrent resolution on the budget.
May 15	Annual appropriation bills may be considered in the House.
June 10	House Appropriations Committee reports last annual appropriation bill.
June 30	Congress completes action on reconciliation legislation.
October 1	Fiscal year begins.

LEGISLATIVE HISTORY AND IMPLEMENTATION OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985

The triggering process in the original Gramm-Rudman-Hollings law, enacted in December 1985, was declared unconstitutional by the Supreme Court the following summer. The role of the Comptroller General as the implementing agent of the sequester was found to violate the separation of powers. As an agent under the employment and control of the Congress, the GAO cannot constitutionally carry out executive duties.

The Balanced Budget and Emergency Deficit Control Act of 1985 differed from current law in three areas—the role of GAO as executor of the sequestration, the uninflated baseline and the maximum deficit amounts. The only other significant change to Gramm-

Rudman occurred in the fiscal year 1987 reconciliation bill. Federal military and civilian retirement and disability cost of living allowances were exempted from any reductions under the law. Other legislation since 1985 has made other exemptions of smaller budget accounts. A list of these exemptions are in table 4.

TABLE 4.—LISTING OF EXEMPTIONS TO SEQUESTRATION PROCEDURES

1. Panama Canal Commission Authorization Act, Fiscal Year 1987 (P.L. 99–368, H.R. 4409, August 1, 1986).

Section 6 exempts the Commission from sequestration under the 1985 Balanced Budget Act to the extent that such reduction would result in payments to the Republic of Panama.

2. Insular Areas Regulation Act (P.L. 99–396, H.R. 2478, August 27, 1986).

Section 19 requires that Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands be paid the full amounts required under the laws establishing their relationship with the United States, notwithstanding the 1985 Balanced Budget Act.

3. Omnibus Budget Reconciliation Act of 1986 (P.L. 99–509, H.R. 5300, October 21, 1986).

Section 7001 exempts cost-of-living (COLA) increases of all Federal Government civilian and military disability and retirement programs from sequestration under the 1985 Balanced Budget Act (covering calendar years 1987 through 1991) so that they are treated under the Act in the same manner as Social Security.

Section 7002 exempts the "Dual benefits payments account" (60–0111–0–1–601–that part of railroad retiree benefits that are Federally funded through regular appropriations acts—from sequestration under the 1985 Balanced Budget Act so that the basic program benefits are treated under the Act in the same manner as other Federal retirement programs.

4. Omnibus Veterans' Benefits Improvement and Health Care Authorization Act of 1986 (P.L. 99–576, H.R. 5299, October 28, 1986).

Title VI exempts various veterans' benefit programs from sequestration under the 1985 Balanced Budget Act, and modifies procedures for the preparation of OMB/CBO joint reports on sequestration and the implementation of sequester orders with regard to veterans' programs.

5. Palau Compact of Free Association Act (P.L. 99–658, H.J. Res. 626, November 14, 1986).

Section 104(f) provides that appropriated amounts required to be paid under the Compact of Free Association Act of 1985 or the Palau Compact of Free Association Act shall not be reduced under the 1985 Balanced Budget Act or other laws.

6. Competitive Equality Banking Act (P.L. 100–86, H.R. 27, (August 10, 1987).

Section 506 exempts the Comptroller of the Currrency. Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration from sequestration of administrative expenses.

7. The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (P.L. 100–19 H.J. Res. 324, September 29, 1987).

Section 104 exempts the Federal Retirement Thrift Investment Board from sequestration of administration expenses, prohibits sequestration of Washington Metropolitan Area Transit Authority interest payments, and clarifies the treatment of other accounts.

8. The Omnibus Budget Reconciliation Act of 1987 (P.L. 100–203, H.R. 3545, December 22, 1987).

Section 8003(f) clarifies the treatment of FHA fund insurance program in construction of baseline spending estimates.

Under the original law and the current Reaffirmation Act, two sequesters have resulted. In 1986, a sequestration of $11.7 billion occurred. The Court, while invalidating the automatic trigger of the Act, permitted the sequester to stand. In fiscal year 1987, the Congress operated under the "fallback" procedure using the Temporary Joint Committee on the Budget described earlier. The deficit was reduced prior to the end of the year and sequestration was avoided. In fiscal year 1988, a partial year sequester was in effect during the short term continuing resolution until December 22, 1987. At that time, the President signed the economic summit agreement embodied in the 1987 reconciliation bill and continuing resolution, voiding the $23 billion sequester. Tables 5 and 6 show the sequestration amount for fiscal years 1986 and 1988, respectively

Sequestration was avoided for fiscal year 1989. In February 1988, OMB had estimated a deficit of $142.7 under Gramm-Rudman-Hollings (GRH) rules while CBO estimated a deficit of $176 billion. In August, the preliminary CBO estimate of the deficit was $153 billion, which would have required outlay reductions of $17 billion through sequestration. OMB projected a GRH deficit of $144 billion which required no sequestration.

CBO, in its final report issued October 11, 1988, estimated a GRH deficit of $151.8 billion while OMB estimated a deficit of $145.5 billion; thus OMB final calculations required no sequestration. Because of the August and October reports, OMB issued several letters updating the deficit projection as bills were enacted and final regulations promulgated. These letters also illustrated the deficit impact of various bills in the legislative process. A final OMB letter issued on December 5 showed a GRH deficit of $146.041 billion. This incorporated all legislation enacted after October 15.

TABLE 5.—SEQUESTRATION CALCULATIONS FOR 1986

[Outlays in millions of dollars]

Category	OMB	CBO	OMB/CBO average	GAO
Defense programs:				
Total required reductions	5,850	5,850	5,850	5,850
Estimated savings from automatic spending increases:				
Indexed retirement programs [1]	496	497	497	497
Amount remaining to be obtained from uniform percentage reductions of budget resources	5,354	5,353	5,353	5,353
Estimated outlays associated with sequesterable budget resources	106,225	112,446	109,335	110,300
Uniform reduction percentage	5.0	4.8	4.9	4.9
Nondefense programs:				
Total required reductions	5,850	5,850	5,850	5,850

TABLE 5.—SEQUESTRATION CALCULATIONS FOR 1986—Continued

[Outlays in millions of dollars]

Category	OMB	CBO	OMB/CBO average	GAO
Estimated savings from automatic spending increases:				
Indexed retirement programs	496	497	497	497
Other indexed programs	45	45	45	45
Estimated savings from the application of special rules:				
Guaranteed student loans	10	10	10	10
Foster care and adoption assistance	5	5	5	5
Medicare	300	300	300	300
Other health programs	82	83	82	82
Amount remaining to be obtained from uniform percentage reductions of budget resources	4,912	4,911	4,912	4,912
Estimated outlays associated with sequesterable budget resources [2]	114,444	115,080	114,762	115,200
Uniform reduction percentage	4.3	4.3	4.3	4.3

[1] These retirement programs are not included in the national defense function of the budget; most are included in the income security function.

[2] Includes estimated 1987 outlays for the Commodity Credit Corporation (CCC) that can be affected by a 1986 sequester (see discussion of special rule for the CCC). The OMB estimate is $10,095 million, the CBO estimate is $8,940 million, and the average is $9,518 million.

Sources: Congressional Budget Office, Office of Management and Budget and General Accounting Office.

TABLE 6.—SUMMARY OF SEQUESTRATION AMOUNTS FOR 1988

[Amounts in billions of dollars except uniform reduction percentage]

Estimate or calculation	CBO (11–16–87)	OMB (11–20–87)
Total revenues	897.0	903.0
Total outlays	1,076.9	1,067.0
Deficit	179.9	164.0
Deficit target	144.0	144.0
Deficit excess	35.9	20.0
Net deficit reduction since January 1	0.0	0.0
Required outlay reductions (set by Act)	23.0	23.0
Outlay reductions in defense programs	11.5	11.5
Sequestration outlay base for uniform cuts	110.5	109.2
Uniform reduction percentage	(10.4)	(10.5)
Outlay reduction in nondefense programs	11.5	11.5
Reductions in indexed programs and programs covered by special rules	1.6	1.5
Remaining outlay reductions	9.9	10.0
Sequestration outlay base for uniform cuts	113.5	117.6
Uniform reduction percentage	(8.7)	(8.5)

THE AUTOMATIC TRIGGERING OF SEQUESTRATION

In the original Act, the final Presidential sequestration orders were automatic and based on the report of the Comptroller General of the GAO. In determining the automatic reductions, the GAO was to give "due regard" to the joint report of the CBO and OMB directors.

THE BUDGET BASELINE

The original budget baseline was nearly $10 billion lower than the amended version. No discretionary inflation was added to the defense and non-defense appropriated accounts. All federal pay raises were assumed to be the amounts recommended by the President in either his budget or August request. Except in the entitlement programs, cuts made from this base were "real" reductions in spending versus elimination of inflationary increases.

When CBO and OMB made their joint report, the differences between them were to be averaged. Varying interpretations of the law led to significant discrepancies in the baseline estimates of spending, revenues, and the deficit excess. Along with differing economic projections, the assumptions on Medicare payment rates, appropriated entitlements, advanced farm deficiency payments, spendout rates and budgeting of federal pay raises resulted in differences of nearly $30 billion between the directors. The Reaffirmation Act, while giving OMB the final "say" in calculating sequestration levels clarified and tightened the procedure.

BUDGETARY RESOURCES

The budgetary resources that are available for sequestration have changed from the original law to the present. Through various laws, many other programs have been exempted from sequestration. Some of these exemptions were purely for technical reasons while others were political decisions of the Congress. The largest changes were the removal of all cost-of-living adjustments for federal and military disabled and retired. Exemption of nearly $50 billion from the baseline effectively eliminated the section of the law on automatic increases. In January 1986, the COLAs were suspended and half of the savings were credited to the defense and half to the non-defense percentage reductions as required.

Previously, sequestration of defense contracts and obligated balances were permitted at the President's discretion, but only if the cancellation would not result in a net cost to the Government or violate a contractual agreement. No contracts were terminated or modified in the 1986 sequestration, and obligated balances and contracts have been removed as budgetary resources in the Reaffirmation Act.

In the 1986 sequestration, the President was permitted, and chose to take, a one time opportunity to make adjustments in parts of the defense cutback. The President could reduce or exempt any defense program, project or activity provided that each budget account was reduced by the full percentage. PPAs within an account could be reduced up to two times the required percentages to make up for lower cuts elsewhere. The President was not allowed to fund an activity more than its baseline level, close military bases, terminate any PPA, or reduce items of Congressional interest by a percentage larger than sequestration.

CHANGES TO THE BUDGET ACT

Until the Balanced Budget Act, waivers of the points of order of the Budget Act required a simple majority. With Gramm-Rudman, the Senate required a three-fifths vote of all Members (60) to waive the rules. It was still possible at the time to waive a point of order by a simple majority through a vote to overturn the ruling of the Chair. The Reaffirmation Act removed the ability of the Senate to get around the simple majority waiver.

The Gramm-Rudman law mandated additional waivers of the Budget Act regarding the MDA in budget resolutions and reconciliation bills. It also expedited the timetable. Most of the changes are explained in the previous section on the workings of the Budget Act. The only significant change made to the timetable by the Reaffirmation Act was removal of the restriction permitting adjournment for the Fourth of July recess without House passage of a reconciliation bill—a requirement that was never enforced.

APPENDIX M. EXCERPTS FROM THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974, AS AMENDED BY THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 (PUBLIC LAW 99-177)

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TITLE III—CONGRESSIONAL BUDGET PROCESS

TIMETABLE

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	**Action to be completed:**
First Monday after January 3	President submits his budget.
February 15	Congressional Budget Office submits report to Budget Committees.
February 25	Committees submit views and estimates to Budget Committees.
April 1	Senate Budget Committee reports concurrent resolution on the budget.
April 15	Congress completes action on concurrent resolution on the budget.
May 15	Annual appropriation bills may be considered in the House.
June 10	House Appropriations Committee reports last annual appropriation bill.
June 15	Congress completes action on reconciliation legislation.
June 30	House completes action on annual appropriation bills.
October 1	Fiscal year begins.

ANNUAL ADOPTION OF CONCURRENT RESOLUTION ON THE BUDGET

SEC. 301. (a) CONTENT OF CONCURRENT RESOLUTION ON THE BUDGET.—On or before April 15 of each year, the Congress shall complete action on a concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth appropriate levels for the fiscal year beginning on October 1 of such year, and planning levels for each of the two ensuing fiscal years, for the following—

(1) totals of new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments;

(2) total Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriation committees;

(3) the surplus or deficit in the budget;

(4) new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments for each major functional category, based on allocations of the total levels set forth pursuant to paragraph (1); and

(5) the public debt.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The concurrent resolution on the budget may—

(1) set forth, if required by subsection (f), the calendar year in which, in the opinion of the Congress, the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 should be achieved;

(2) include reconciliation directives described in section 310;

(3) require a procedure under which all or certain bills or resolutions providing new budget authority or new entitlement authority for such fiscal year shall not be enrolled until the Congress has completed action on any reconciliation bill or reconciliation resolution or both required by such concurrent resolution to be reported in accordance with section 310(b); and

(4) set forth such other matters, and require such other procedures, relating to the budget, as may be appropriate to carry out the purposes of this Act.

(c) CONSIDERATION OF PROCEDURES OR MATTERS WHICH HAVE THE EFFECT OF CHANGING ANY RULE OF THE HOUSE OF REPRESENTATIVES.—If the Committee on the Budget of the House of Representatives reports any concurrent resolution on the budget which includes any procedure or matter which has the effect of changing any rule of the House of Representatives, such concurrent resolution shall then be referred to the Committee on Rules with instructions to report it within five calendar days (not counting any day on which the House is not in session). The Committee on Rules shall have jurisdiction to report any concurrent resolution referred to it under this paragraph with an amendment or amendments changing or striking out any such procedure or matter.

(d) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before February 25 of each year, each committee of the House of Representatives having legislative jurisdiction shall submit to the Committee on the Budget of the House and each committee of the Senate having legislative jurisdiction shall submit to the Committee on the Budget of the Senate its views and estimates (as determined by the committee making such submission) with respect to all matters set forth in subsections (a) and (b) which relate to matters within the jurisdiction or functions of such committee. The Joint Economic Committee shall submit to the Committee on the Budget of both Houses its recommendations as to the fiscal policy appropriate to the goals of the Employment Act of 1946. Any other committee of the House of Representatives or the Senate may submit to the Committee on the Budget of its House, and any joint committee of the Congress may submit to the Committee on the Budget of both Houses, its views and estimates with respect to all matters set forth in subsections (a) and (b) which relate to matters within its jurisdiction or functions.

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(g) ECONOMIC ASSUMPTIONS.—

(1) It shall not be in order in the Senate to consider any concurrent resolution on the budget for a fiscal year, or any amendment thereto, or any conference report thereon, that

sets forth amounts and levels that are determined on the basis of more than one set of economic and technical assumptions.

(2) The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall set forth the common economic assumptions upon which such joint statement and conference report are based, or upon which any amendment contained in the joint explanatory statement to be proposed by the conferees in the case of technical disagreement, is based.

(3) Subject to periodic reestimation based on changed economic conditions or technical estimates, determinations under titles III and IV of the Congressional Budget Act of 1974 shall be based upon such common economic and technical assumptions.

(h) BUDGET COMMITTEES CONSULTATION WITH COMMITTEES.—The Committee on the Budget of the House of Representatives shall consult with the committees of its House having legislative jurisdiction during the preparation, consideration, and enforcement of the concurrent resolution on the budget with respect to all matters which relate to the jurisdiction or functions of such committees.

(i) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.[1]

(1)(A) Except as provided in paragraph (2), it shall not be in order in either the House of Representatives or the Senate to consider any concurrent resolution on the budget for a fiscal year under this section, or to consider any amendment to such a concurrent resolution, or to consider a conference report on such a concurrent resolution, if the level of total budget outlays for such fiscal year that is set forth in such concurrent resolution or conference report exceeds the recommended level of Federal revenues set forth for that year by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7), or if the adoption of such amendment would result in a level of total budget outlays for that fiscal year which exceeds the recommended level of Federal revenues for that fiscal year, by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7).

(B) In the House of Representatives the point of order established under subparagraph (A) with respect to the consideration of a conference report or with respect to the consideration of a motion to concur, with or without an amendment or amendments, in a Senate amendment, the stage of disagreement having been reached, may be waived only by a vote of three-fifths of the Members present and voting, a quorum being present.

(2)(A) Paragraph (1) of this subsection shall not apply if a declaration of war by the Congress is in effect.

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[1] Section 301(i) expires on September 30, 1993: P.L. 99–177, section 275(b)(2)(B), as amended by P.L. 100–119. The point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99–177, section 271(b). In the Senate, whenever such a three-fifths vote is required to waive a point of order under this Act, such a three-fifths vote is also required to sustain an appeal of the ruling of the Chair on such point of order; P.L. 99–177, section 271, as amended by P.L. 100–119, section 210(a).

(B) Paragraph (1) shall not apply to the consideration of any concurrent resolution on the budget for fiscal year 1988 or fiscal year 1989, or amendment thereto or conference report thereon, if such concurrent resolution or conference report provides, or in the case of an amendment if the concurrent resolution as changed by the adoption of such amendment would provide for deficit reduction from a budget baseline estimate as specified in section 251(a)(6) of the Balanced Budget and Emergency Deficit Control Act of 1985 for such fiscal year (based on laws in effect on January 1 of the calendar year during which the fiscal year begins) equal to or greater than the maximum amount of unachieved deficit reduction for such fiscal year as specified in section 251(a)(3)(A) of such Act.

(C) For purposes of the application of subparagraph (B), the amount of deficit reduction for a fiscal year provided for in a concurrent resolution, or amendment thereto or conference report thereon, shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

COMMITTEE ALLOCATIONS

SEC. 302. (a) ALLOCATION OF TOTALS.—

(1) For the House of Representatives, the joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority, total entitlement authority, and total credit authority among each committee of the House of Representatives which has jurisdiction over laws, bills and resolutions providing such new budget authority, such entitlement authority, or such credit authority. The allocation shall, for each committee, divide new budget authority, entitlement authority, and credit authority between amounts provided or required by law on the date of such conference report (mandatory or uncontrollable amounts), and amounts not so provided or required (discretionary or controllable amounts), and shall make the same division for estimated outlays that would result from such new budget authority.

(2) For the Senate, the joint explanatory statement accompanying a conference report of a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority and new credit authority among each committee of the House of Representatives and the Senate which has jurisdiction over bills and resolutions providing such new budget authority.

(b) REPORTS BY COMMITTEES.—As soon as practicable after a concurrent resolution on the budget is agreed to—

(1) the Committee on Appropriations of each House shall, after consulting with the Committee on Appropriations of the other House, (A) subdivide among its subcommittees the alloca-

tion of budget outlays, new budget authority, and new credit authority allocated to it in the joint explanatory statement accompanying the conference report on such concurrent resolution, and (B) further subdivide the amount with respect to each such subcommittee between controllable amounts and all other amounts; and

(2) every other committee of the House and Senate to which an allocation was made in such joint explanatory statement shall, after consulting with the committee or committees of the other House to which all or part of its allocation was made, (A) subdivide such allocation among its subcommittee or among programs over which it has jurisdiction, and (B) further subdivide the amount with respect to each subcommittee or program between controllable amounts and all other amounts.

Each such committee shall promptly report to its House the subdivisions made by it pursuant to this subsection.

(c) Point of Order.—It shall not be in order in the House of Representatives or the Senate to consider any bill or resolution, or amendment thereto providing—

(1) new budget authority for a fiscal year;

(2) new spending authority as described in section 401(c)(2) for a fiscal year; or

(3) new credit authority for a fiscal year;

within the jurisdiction of any committee which has received an appropriate allocation of such authority pursuant to subsection (a) for such fiscal year, unless and until such committee makes the allocation or subdivisions required by subsection (b), in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(d) Subsequent Concurrent Resolutions.—In the case of a concurrent resolution on the budget referred to in section 304, the allocations under subsection (a) and the subdivisions under subsection (b) shall be required only to the extent necessary to take into account revisions made in the most recently agreed to concurrent resolution on the budget.

(e) Alteration of Allocations.—At any time after a committee reports the allocations required to be made under subsection (b), such committee may report to its House an alteration of such allocations. Any alteration of such allocations must be consistent with any actions already taken by its House on legislation within the committee's jurisdiction.

(f) Legislation Subject to Point of Order.[2]—

(1) In the house of representatives.—After the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in the House of Representatives to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, new entitlement authority effective during such fiscal year, or new credit

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[2] Section 302(f) became effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A). Until September 30, 1993 the point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b) as amended by P.L. 100-119.

authority for such fiscal year, or any conference report on any such bill or resolution, if—

(A) the enactment of such bill or resolution as reported;

(B) the adoption and enactment of such amendment; or

(C) the enactment of such bill or resolution in the form recommended in such conference report,

would cause the appropriate allocation made pursuant to subsection (b) for such fiscal year of new discretionary budget authority, new entitlement authority, or new credit authority to be exceeded.

(2) In the senate.—At any time after the Congress has completed action on the concurrent resolution on the budget required to be reported under section 301(a) for a fiscal year, it shall not be in order in the Senate to consider any bill or resolution (including a conference report thereon), or any amendment to a bill or resolution, that provides for budget outlays or new budget authority in excess of the appropriate allocation of such outlays or authority reported under subsection (b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(g) Determinations by Budget Committees.—For purposes of this section, the levels of new budget authority, spending authority as described in section 401(c)(2), outlays, and new credit authority for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the Senate, as the case may be.

CONCURRENT RESOLUTION ON THE BUDGET MUST BE ADOPTED BEFORE LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, NEW CREDIT AUTHORITY, OR CHANGES IN REVENUES OR THE PUBLIC DEBT LIMIT IS CONSIDERED

Sec. 303. (a) In General.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution (or amendment thereto) as reported to the House or Senate which provides—

(1) new budget authority for a fiscal year;

(2) an increase or decrease in revenues to become effective during a fiscal year;

(3) an increase or decrease in the public debt limit to become effective during a fiscal year;

(4) new entitlement authority to become effective during a fiscal year; or

(5) new credit authority for a fiscal year,

until the concurrent resolution on the budget for such fiscal year has been agreed to pursuant to section 301.

(b) Exceptions.—Subsection (a) does not apply to any bill or resolution—

(1) providing new budget authority which first becomes available in a fiscal year following the fiscal year to which the concurrent resolution applies; or

(2) increasing or decreasing revenues which first become effective in a fiscal year following the fiscal year to which the concurrent resolution applies.

After May 15 of any calendar year, subsection (a) does not apply in the House of Representatives to any general appropriation bill, or amendment thereto which provides new budget authority for the fiscal year beginning in such calendar year.

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PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS ON THE BUDGET

SEC. 304. (a) IN GENERAL.—At any time after the concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301, and before the end of such fiscal year, the two Houses may adopt a concurrent resolution on the budget which revises or reaffirms the concurrent resolution on the budget for such fiscal year most recently agreed to.

(b) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.[3]—The provisions of section 301(i) shall apply with respect to concurrent resolutions on the budget under this section (and amendments thereto and conference reports thereon) in the same way they apply to concurrent resolutions on the budget under such section 301(i) (and amendments thereto and conference reports thereon).

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REPORTS, SUMMARIES, AND PROJECTIONS OF CONGRESSIONAL BUDGET ACTIONS

SEC. 308. (a) REPORTS ON LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, OR NEW CREDIT AUTHORITY, OR PROVIDING AN INCREASE OR DECREASE IN REVENUES OR TAX EXPENDITURES.—

(1) Whenever a committee of either House reports to its House a bill or resolution, or committee amendment thereto, providing new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or providing an increase or decrease in revenues or tax expenditures for a fiscal year, the report accompanying that bill or resolution shall contain a statement, or the committee shall make available such a statement in the case of an approved committee amendment which is not reported to its House, prepared after consultation with the Director of the Congressional Budget Office)—

(A) comparing the levels in such measure to the appropriate allocations in the reports submitted under section 302(b) for the most recently agreed to concurrent resolution on the budget for such fiscal year;

(B) including an identification of any new spending authority described in section 401(c)(2) which is contained in such measure and a justification for the use of such financing method instead of annual appropriations;

(C) containing a projection by the Congressional Budget Office of how such measure will affect the levels of such budget authority, budget outlays, spending authority, revenues, tax expenditures, direct loan obligations, or primary loan guarantee commitments under existing law for such fiscal year and each of the four ensuing fiscal years, if timely submitted before such report is filed; and

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[3] Section 304(b) expires on September 30, 1993; P.L. 99–177, section 275(b)(2)(B) as amended by P.L. 100–119. The point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99–177, section 271(b).

(D) containing an estimate by the Congressional Budget Office of the level of new budget authority for assistance to State and local governments provided by such measure, if timely submitted before such report is filed.

(2) Whenever a conference report is filed in either House and such conference report or any amendment reported in disagreement or any amendment contained in the joint statement of managers to be proposed by the conferees in the case of technical disagreement on such bill or resolution provides new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or provides an increase or decrease in revenues for a fiscal year, the statement of managers accompanying such conference report shall contain the information described in paragraph (1), if available on a timely basis. If such information is not available when the conference report is filed, the committee shall make such information available to Members as soon as practicable prior to the consideration of such conference report.

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RECONCILIATION

SEC. 310. (a) INCLUSION OF RECONCILIATION DIRECTIVES IN CONCURRENT RESOLUTIONS ON THE BUDGET.—A concurrent resolution on the budget for any fiscal year, to the extent necessary to effectuate the provisions and requirements of such resolution, shall—

(1) specify the total amount by which—

(A) new budget authority for such fiscal year;

(B) budget authority initially provided for prior fiscal years;

(C) new entitlement authority which is to become effective during such fiscal year; and

(D) credit authority for such fiscal year, contained in laws, bills, and resolutions within the jurisdiction of a committee is to be changed and direct that committee to determine and recommend changes to accomplish a change of such total amount;

(2) specify the total amount by which revenues are to be changed and direct that the committees having jurisdiction to determine and recommend changes in the revenue laws, bills, and resolutions to accomplish a change of such total amount;

(3) specify the amounts, by which the statutory limit on the public debt is to be changed and direct the committee having jurisdiction to recommend such change; or

(4) specify and direct any combination of the matters described in paragraphs (1), (2), and (3).

(b) LEGISLATIVE PROCEDURE.—If a concurrent resolution containing directives to one or more committees to determine and recommend changes in laws, bills, or resolutions is agreed to in accordance with subsection (a), and—

(1) only one committee of the House or the Senate is directed to determine and recommend changes, the committee shall promptly make such determination and recommendations and report to its House reconciliation legislation containing such recommendations; or

(2) more than one committee of the House or the Senate is directed to determine and recommend changes, each such committee so directed shall promptly make such determination and recommendations and submit such recommendations to the Committee on the Budget of its House, which upon receiving all such recommendations, shall report to its House reconciliation legislation carrying out all such recommendations without any substantive revision.

For purposes of this subsection, a reconciliation resolution is a concurrent resolution directing the Clerk of the House of Representatives or the Secretary of the Senate, as the case may be, to make specified changes in bills and resolutions which have not been enrolled.

(c) COMPLIANCE WITH RECONCILIATION DIRECTIONS.—Any committee of the House of Representatives or the Senate that is directed, pursuant to a concurrent resolution on the budget, to determine and recommend changes of the type described in paragraphs (1) and (2) of subsection (a) with respect to laws within its jurisdiction, shall be deemed to have complied with such directions—

(1) If—

(A) the amount of the changes of the type described in paragraph (1) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under that paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection, and

(B) the amount of the changes of the type described in paragraph (2) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under that paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection; and

(2) if the total amount of the changes recommended by such committee is not less than the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection.

(d) LIMITATION ON AMENDMENTS TO RECONCILIATION BILLS AND RESOLUTIONS.—

(1) It shall not be in order in the House of Representatives to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of increasing any specific budget outlays above the level of such outlays provided in the bill or resolution (for the fiscal years

covered by the reconciliation instructions set forth in the most recently agreed to concurrent resolution on the budget), or would have the effect of reducing any specific Federal revenues below the level of such revenues provided in the bill or resolution for such fiscal years), unless such amendment makes at least an equivalent reduction in other specific budget outlays, an equivalent increase in other specific Federal revenues, or an equivalent combination thereof (for such fiscal years), except that a motion to strike a provision providing new budget authority or new entitlement authority may be in order.

(2) It shall not be in order in the Senate to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of decreasing any specific budget outlay reductions below the level of such outlay reductions provided (for the fiscal years covered) in the reconciliation instructions which relate to such bill or resolution set forth in a resolution providing for reconciliation, or would have the effect of reducing Federal revenue increases below the level of such revenue increases provided (for such fiscal years) in such instructions relating to such bill or resolution, unless such amendment makes a reduction in other specific budget outlays, an increase in other specific Federal revenues, or a combination thereof (for such fiscal years) at least equivalent to any increase in outlays or decrease in revenues provided by such amendment, except that a motion to strike a provision shall always be in order.

(3) Paragraphs (1) and (2) shall not apply if a declaration of war by the Congress is in effect.

(4) For purposes of this section, the levels of budget outlays and Federal revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

(5) The Committee on Rules of the House of Representatives may make in order amendments to achieve changes specified by reconciliation directives contained in a concurrent resolution on the budget if a committee or committees of the House fail to submit recommended changes to its Committee on the Budget pursuant to its instruction.

(e) PROCEDURE IN THE SENATE.—

(1) Except as provided in paragraph (2), the provisions of section 305 for the consideration in the Senate of concurrent resolutions on the budget and conference reports thereon shall also apply to the consideration in the Senate of reconciliation bills reported under subsection (b) and conference reports thereon.

(2) Debate in the Senate on any reconciliation bill reported under subsection (b), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 20 hours.

(f) Completion of Reconciliation Process.[4]—

(1) In general.—Congress shall complete action on any reconciliation bill or reconciliation resolution reported under subsection (b) not later than June 15 of each year.

(2) Point of order in the house of representatives.—It shall not be in order in the House of Representatives to consider any resolution providing for an adjournment period of more than three calendar days during the month of July until the House of Representatives has completed action on the reconciliation legislation for the fiscal year beginning on October 1 of the calendar year to which the adjournment resolution pertains, if reconciliation legislation is required to be reported by the concurrent resolution on the budget for such fiscal year.

(g) Limitation on Changes to the Social Security Act.—Notwithstanding any other provision of law, it shall not be in order in the Senate or the House of Representatives to consider any reconciliation bill or reconciliation resolution reported pursuant to a concurrent resolution on the budget agreed to under section 301 or 304, or a resolution pursuant to section 254(b) of the Balanced Budget and Emergency Deficit Control Act of 1985, or any amendment thereto or conference report thereon, that contains recommendations with respect to the old-age survivors, and disability insurance program established under title II of the Social Security Act.

NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

Sec. 311. (a) Legislation Subject to Point of Order.[5]—Except as provided by subsection (b), after the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, providing new entitlement authority effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of total revenues set forth in such concurrent resolution or, in the

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[4] Section 310(g) became effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A). Until September 30, 1993, the point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b) as amended by P.L. 100-119.

[5] The portion of section 311(a) which begins with "or, in the Senate" and ends with "paragraph (2) of such subsection" expires on September 30, 1993; P.L. 99-177, section 275(b)(2) as amended by P.L. 100-119. Until September 30, 1991, the point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b).

Senate, would otherwise result in a deficit for such fiscal year that—

(A) for fiscal year 1989 or any subsequent fiscal year, exceeds the maximum deficit amount specified for such fiscal year in section 3(7); and

(B) for fiscal year 1988 or 1989, exceeds the amount of the estimated deficit for such fiscal year based on laws and regulations in effect on January 1 of the calendar year in which such fiscal year begins as measured using the budget baseline specified in section 251(a)(6) of the Balanced Budget and Emergency Deficit Control Act of 1985 minus $23,000,000,000 for fiscal year 1988 or $36,000,000,000 for fiscal year 1989;

except to the extent that paragraph (1) of section 301(i) or section 304(b), as the case may be, does not apply by reason of paragraph (2) of such subsection.

(b) EXCEPTION IN THE HOUSE OF REPRESENTATIVES.—Subsection (a) shall not apply in the House of Representatives to any bill, resolution, or amendment which provides new budget authority or new entitlement authority effective during such fiscal year, or to any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would not cause the appropriate allocation of new discretionary budget authority or new entitlement authority made pursuant to section 302(a) for such fiscal year, for the committee within whose jurisdiction such bill, resolution, or amendment falls, to be exceeded.

(c) DETERMINATION OF BUDGET LEVELS.—For purposes of this section, the levels of new budget authority, budget outlays, new entitlement authority, and revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

BILLS PROVIDING NEW SPENDING AUTHORITY [6]

SEC. 401. (a) CONTROLS ON LEGISLATION PROVIDING SPENDING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution or conference report, as reported to its House which provides new spending authority described in subsection (a)(2) (A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, conference report, or amendment also provides that such new spending authority as described in subsection (c)(2) (A) or (B) is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

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[6] The original section 401 was amended in its entirety by P.L. 99-177, section 211.

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be required for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day on which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

(c) DEFINITIONS.—

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this Act, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under chapter 31 of title 31 of the United States Code) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts;

(C) to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law;

(D) to forego the collection by the United States of proprietary offsetting receipts, the budget authority for which is not provided in advance by appropriation Acts to offset such foregone receipts; and

(E) to make payments by the United States (including loans, grants, and payments from revolving funds) other than those covered by subparagraph (A) (B), (C), or (D), the budget authority for which is not provided in advance by appropriation Acts.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act);

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Fiscal Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act, as of the date of enactment of the Balanced Budget and Emergency Deficit Control Act of 1985; or

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

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OFF-BUDGET AGENCIES, PROGRAMS, AND ACTIVITIES

SEC. 406. (a) Notwithstanding any other provision of law, budget authority, credit authority, and estimates of outlays and receipts for activities of the Federal budget which are off-budget immediately prior to the date of enactment of this section, not including activities of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, shall be included in a budget submitted pursuant to section 1105 of title 31, United States Code, and in a concurrent resolution on the budget reported pursuant to section 301 or section 304 of this Act and shall be considered, for purposes of this Act, budget authority, outlays, and spending authority in accordance with definitions set forth in this Act.

(b) All receipts and disbursements of the Federal Financing Bank with respect to any obligations which are issued, sold, or guaranteed by a Federal agency shall be treated as a means of financing such agency for purposes of section 1105 of title 31, United States Code, and for purposes of this Act.

APPENDIX N. COMMITTEE ON WAYS AND MEANS MARCH 1988 AND FEBRUARY 1989 REPORTS TO THE BUDGET COMMITTEE

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, March 9, 1988.

Hon. WILLIAM H. GRAY III,
Chairman, Committee on the Budget,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: As required by section 301(d) of the Congressional Budget Act of 1974, this letter transmits the views and estimates of the Committee on Ways and Means on those aspects of the Federal budget for fiscal year 1989 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its concern about national economic conditions in fiscal year 1989 and beyond. Large U.S. budget and trade deficits exist, and are projected to continue. The huge trade deficit of $171 billion in 1987 resulted in large part from the effect of the U.S. budget deficit on interest rates and the value of the U.S. dollar, making it extremely difficult for U.S. companies to compete in the world marketplace. The trade deficit has also been exacerbated by a number of trade barriers maintained by foreign governments which are significantly reducing U.S. export opportunities.

As its first major priority, conferees from the Committee on Ways and Means and other committees are working to complete the conference on H.R. 3, the omnibus trade reform bill. This legislation will effectively address these foreign trade barriers, make U.S. trade laws more effective in combatting unfair trade practices, provide the authority for a new round of multilateral trade negotiations, and encourage international discussion on monetary reform. We firmly believe that this legislation will pass the Congress this year and will, over time, result in a significant reduction of our trade deficit. Such legislation should have a positive, but at this time unquantifiable, effect on our budget deficit as well.

Immediately after completing the conference on the omnibus trade reform legislation, the Committee will consider legislation to implement the U.S.-Canada free trade agreement. The budget implications of both of these important trade bills should be accommodated in the budget resolution to be reported from your Committee.

I. *Revenues.*—The Congressional Budget Office estimates fiscal year 1989 revenues at $953 billion. The Committee expects to report legislation making technical corrections to the Tax Reform Act of 1986 and other miscellaneous revenue measures. Any such bill reported by the Committee will be budget neutral. We take note of the fact that the President's budget contains several revenue proposals, some of which increase and some of which decrease taxes.

II. *Outlays.*—The Committee on Ways and Means has jurisdictional responsibility over a broad range of programs, including the Medicare program. The Administration's fiscal year 1989 budget proposes an additional $1.3 billion in Medicare reductions, under the pretense that the required Medicare savings agreed to in the economic summit were not achieved. The Committee firmly believes that the required Medicare savings were achieved, and does not intend to consider legislation to achieve additional savings.

The terms of the summit agreement were to reduce Medicare costs by $2.0 billion in fiscal year 1988 and $3.5 billion in fiscal year 1989. Stated another way, the agreement was to increase by $500 million, both in fiscal years 1988 and 1989, the level of Medicare savings contained in the reconciliation bill passed by the House of Representatives on October 29, 1987. In fact, the Medicare reductions in the reconciliation bill signed by the President on December 22 exceeded the targets set by the summit agreement. Provisions in that bill reduced Medicare spending by $2.1 billion in fiscal year 1988, $550 million more than the House-passed bill, and $3.8 billion in fiscal year 1989, over $650 million more than the House-passed bill.

As you know, the Committee also authorizes appropriations for certain trade agencies and programs. The Committee will consider an authorization bill for the Office of the U.S. Trade Representative, the International Trade Commission, and the U.S. Customs Service later this spring.

III. *New Initiatives.*—The Committee expects to complete legislative action on a catastrophic Medicare insurance bill, which is now in conference. Both the President's budget and the Committee assume that this legislation will be budget neutral.

The Committee also anticipates further action on welfare reform during this Congress. As you know, the House has passed a major welfare reform initiative, the Family Welfare Reform Act of 1987 (H.R. 1720). The Senate has not yet acted on welfare reform but is expected to do so in the near future. The President's budget also includes funds for welfare reform. The Committee anticipates that the final welfare reform package will be budget neutral for fiscal year 1989. The Committee anticipates that a further extension of the IRS debt collection provision included in Public Law 100–203 will be used to finance in part the welfare reform bill.

Finally, the Committee notes that H.R. 2167, the Railroad Unemployment Insurance and Retirement Improvement Act of 1987, is currently pending in the Senate. As it passed the House H.R. 2167 had a net savings of $5 million over the first three years and $110 million over five years.

While it is too early to predict the exact nature and costs of these new initiatives, the Committee expects that the budget resolution will accommodate the catastrophic health insurance bill and welfare reform. As noted above, the Committee anticipates that both initiatives will be budget neutral with respect to programs within the jurisdiction of the Committee.

IV. *Reconciliation.*—The Committee strongly urges that no reconciliation directive to achieve further outlay savings or revenue increases be assigned to the Committee. However, if the Administration, in compliance with the requirements of the amended Gramm-Rudman-Hollings law, produces a budget deficit estimate on August 25th of this year reflecting the need for further deficit reduction efforts, this Committee stands ready to consult with the leadership about the appropriateness of further deficit reduction efforts and to assist the leadership in undertaking any deficit reduction efforts deemed appropriate.

V. *Public debt limit.*—The Congressional Budget Office estimates that the fiscal year 1989 unified budget deficit will be $176 billion under current law. The present statutory debt limit is $2.8 trillion, a level that the Committee projects will be sufficient through mid-1989. Thus, the Committee does not anticipate any legislative action on the public debt limit this year.

VI. *Additional materials.*—In keeping with our tradition of assisting the Budget Committee in carrying out its responsibilities and in making assessments concerning specific recommendations within the jurisdiction of the Committee on Ways and Means, I will forward at a later date a copy of a Ways and Means Committee print entitled, "Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means: 1988 Edition." This document will include a description of the Administration's fiscal year 1989 budget recommendations under the jurisdiction of the Committee on Ways and Means. I hope you find this information useful. As always, the members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI, *Chairman.*

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, February 23, 1989.

Hon. LEON E. PANETTA,
Chairman, Committee on the Budget,
U.S. House of Representatives, Washington, DC

DEAR MR. CHAIRMAN: As required by section 301(d) of the Congressional Budget Act of 1974, this letter transmits the views and estimates of the Committee on Ways and Means on those aspects of the Federal budget for fiscal year 1990 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its concern about national economic conditions in fiscal year 1990 and beyond. Large U.S. budget and trade deficits exist and are projected to continue. These deficits will be the primary concern of the Committee in the upcoming session. All matters regarding programs within the jurisdiction of the Committee on Ways and Means are overshadowed by the need to address the problem of these deficits and our growing national and international debt. The huge trade deficit of approximately $119 billion in 1988 resulted in large part from the effect of the U.S. budget deficit on interest rates and the value of the U.S. dollar, making it extremely difficult for U.S. companies to compete in the world marketplace.

We are also concerned that our country became a net debtor nation in 1985. High domestic interest rates, the result of both Federal Reserve monetary policy implemented to control inflation and large Federal budget deficits, attracted a net annual inflow of foreign capital. The accumulated net foreign debt in the U.S. reached approximately $456 billion by the end of fiscal year 1988. If trends continue, our foreign debt will approach $1 trillion by the mid-1990s.

Congress and the Administration need to gain control of the country's debt problem. A national economic strategy which emphasizes budget deficit reduction policies that encourage savings and economic growth is an important first step. Such a strategy would reduce our nation's rate of consumption and increase production, thereby lowering domestic interest rates and reducing inflows of foreign capital. The end result will be to limit the ultimate size of our already existent external debt.

I. Revenues.—The Congressional Budget Office estimates fiscal year 1990 revenues will be $1,069 billion. Many, but not all of us, believe that revenue increases will be needed in fiscal year 1990 in order to avoid sequestration. However, we all believe that the Committee should not be required to report revenue increases pursuant to a reconciliation instruction until there is significant bipartisan support for such an action. We take note of the fact that the President's budget contains several revenue proposals, some of which increase and some of which decrease taxes. The Committee continues to insist that no fundamental change should be made to the Tax Reform Act of 1986. The last eight years have witnessed the enactment of four major and several other revenue bills which significantly changed the Federal income tax structure for both individuals and corporations. Given the scope and pace of these changes, the Committee feels strongly that stability in the Federal income tax structure is essential. While it may be appropriate for the Committee to examine selective income tax issues in the 101st Congress, the Committee does not anticipate consideration of major income tax changes or re-opening any fundamental feature of the 1986 Tax Reform Act. Finally, in the event that any revenue-losing proposals are considered by the Committee, we believe that such proposals should be made budget neutral. This is consistent with the commitment that the Committee made last Congress.

II. Outlays.—The Committee on Ways and Means has jurisdictional responsibility over a broad range of programs, including the Medicare program. The Administration has proposed legislative reductions of $4.4 billion from anticipated spending in Medicare and also proposes to increase part B Medicare premiums substantially ($600 million) in fiscal year 1990. The three-year savings for all Medicare proposals is approximately $23.5 billion. The Committee wishes to express its concern about the size of these proposed Medicare reductions. While the Committee will work diligently in this area, it is not reasonable to expect providers or beneficiaries to absorb the level of reductions proposed by the Administration in the Medicare program for fiscal year 1990.

The Bush Administration budget appears to contain significant reductions in the Aid to Families with Dependent Children (AFDC), the foster care, and the Child Support Enforcement programs. The Committee believes these reductions are inconsistent with the policy of a "kinder, gentler nation." In addition, the Bush budget assumes collection of AFDC fiscal sanctions at a level that is far in excess of what can reasonably be expected in fiscal year 1990.

The Bush budget recommends that the Trade Adjustment Assistance program (TAA) be in the category of programs to be frozen. The Committee on the Budget must realize that decisions with respect to freezing entitlement programs, including state AFDC administrative costs and TAA, are not within the purview of the Committee on Appropriations.

As you know, the Committee also authorizes appropriations for certain trade agencies and programs. The Committee will consider an authorization bill for the Office of the U.S. Trade Representative, the International Trade Commission, and the U.S. Customs Service later this spring. The Committee is concerned that our current system of Custom Service user fees and the Superfund oil fee tariff are in violation of the General Agreement on Tariffs and Trade (GATT). We anticipate that the Committee may report legislation modifying these fees on a budget neutral basis so that they no longer violate GATT.

III. Oversight.—As one of our major priorities this year, the Committee will hold oversight hearings to monitor the implementation of the four major bills that were passed in 1988 within the jurisdiction of the Committee. These are the Omnibus Trade and Competitiveness Act of 1988, the United States-Canada Free Trade Agreement Implementation Act of 1988, the Family Support Act of 1988, and the Medicare Catastrophic Coverage Act of 1988. We do not anticipate any legislative activity modifying these laws and we strongly urge that Congress follow through on the decisions made when these laws were enacted. The JOBS program within the Family Support Act should be fully funded and be regarded as an entitlement program. In addition, the various demonstration projects, commissions, and research activities mandated in these laws should be funded and carried out.

IV. New initiatives.—The Committee is open to Administration and Congressional proposals in the Committee's jurisdiction that will carry out the President's theme of a "kinder, gentler" nation. However, the Committee firmly believes that deficit reduction must remain our highest priority, and consequently, all such proposals, including proposed revenue-losing proposals, should only be advanced on a budget-neutral basis.

We also anticipate that the Committee may be involved in any legislation to finance the insurance obligations of the Federal Savings and Loan Insurance Corporation. The program should be on-budget to the extent that any taxpayer funds will be potentially utilized for funding. Because the exact size and nature of the legislation necessary to address this problem cannot be anticipated at this time, the budget resolution should accommodate any budget-neutral solution that would be reported from appropriate Committees of jurisdiction.

V. Trust fund reserves.—The Committee wishes to express its concern about growing trust fund reserves, particularly in the Social Security program, masking the true size of the general fund deficit. In fiscal year 1990, the increase in trust fund reserves is $136 billion and the deficit without these annual surpluses would be $282 billion. The Committee believes the impact of these trust fund reserves merits attention by the Committee on the Budget in setting fiscal policy in the future.

VI. Public debt limit.—The present statutory debt limit is $2.8 trillion, a level that the Committee projects will be sufficient through the end of July and possibly into September. Thus legislative action will be required on the public debt limit this year.

VII. Additional Materials.—In keeping with our tradition of assisting the Budget Committee in carrying out its responsibilities and in making assessments concerning specific recommendations within the jurisdiction of the Committee on Ways and Means, I will forward at a later date a copy of a Ways and Means Committee print entitled, "Background Materials and Data on Programs Within the Jurisdiction of the Committee on Ways and Means—1989 edition." This document will include a description of the Administration's fiscal year 1990 budget recommendations under the jurisdiction of the Committee on Ways and Means. I hope you find this information useful. As always, the members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI, *Chairman.*

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